

CITY OF STERLING, ILLINOIS

ANNUAL FINANCIAL REPORT

April 30, 2010

CITY OF STERLING, ILLINOIS

TABLE OF CONTENTS

	<u>Page Number</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	3 - 4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5 - 14
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	15
Statement of Activities	16
Balance Sheet - Governmental Funds	17
Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Net Assets - Proprietary Funds	21
Combined Statement of Revenues, Expenses and Changes in Net Assets (Deficit) - Proprietary Fund Types	22
Combined Statement of Cash Flows - All Proprietary Fund Types	23
Statement of Fiduciary Net Assets - Fiduciary Funds	24
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	25
Notes to Basic Financial Statements	26 - 73

CITY OF STERLING, ILLINOIS

TABLE OF CONTENTS

	<u>Page Number</u>
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress	74
General Fund Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	75 - 77
Rock River Tax Increment Allocation Fund Schedule of Revenues, Expenditures, and Changes in Fund Deficit - Budget and Actual	78
CBD Tax Increment Allocation Fund Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	79
Notes to Required Supplemental Information	80
SUPPLEMENTAL INFORMATION	
SPECIAL REVENUE AND CAPITAL PROJECT FUNDS	
Non-Major Funds Combining Balance Sheet	81
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	82

CITY OF STERLING, ILLINOIS

TABLE OF CONTENTS

	<u>Page Number</u>
FIDUCIARY FUNDS	
Combining Statement of Plan Net Assets - Pension Trust Funds	83
Combining Statement of Changes in Plan Net Assets - Pension Trust Funds	84
OTHER INFORMATION	
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE OF ILLINOIS PUBLIC ACT 85-1142	85



INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
Members of the City Council
City of Sterling, Illinois

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Sterling, Illinois (City), as of and for the year ended April 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Sterling, Illinois' management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the CGH Medical Center, (Discretely Presented Component Unit) which represent 100 percent of the assets, net assets, and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion insofar as it relates to the amounts included for the CGH Medical Center, a (Discretely Presented Component Unit), is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions. The financial statements of the CGH Medical Center, a (Discretely Presented Component Unit) of the City, were not audited in accordance with Government Auditing Standards.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Sterling, Illinois, as of April 30, 2010 and the respective changes in financial position and cash flows where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 28, 2010, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 - 14, the Schedule of Funding Progress on page 74 and budgetary comparison on pages 75 through 79 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion of it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the City of Sterling, Illinois. This information has been subjected to the auditing procedures applied in the audit of the financial statements, and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Lindgren, Callahan, Van Osdol & Co. Ltd.

Rockford, Illinois
September 28, 2010



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL OVER INANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and
Members of the City Council
City of Sterling, Illinois

We have audited the financial statements of the City of Sterling, Illinois as of and for the year ended April 30, 2010, and have issued our report thereon dated September 28, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Sterling, Illinois' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Sterling, Illinois' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Sterling, Illinois's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described below to be a significant deficiency.

Inadequate Segregation of Duties

The City has incomplete segregation of duties. A good system of internal control involves segregation of duties so that no one individual can handle a transaction from its inception to its completion. Complete segregation of duties would require segregating responsibility for the initiation, approval and recording of all accounting transactions. While the City's size may preclude complete segregation of duties, you should be aware of this situation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Sterling, Illinois' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended for the information of the City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sindgen, Callahan, Van Dordt & Co., Ltd.

Rockford, Illinois
September 28, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

This discussion and analysis of the City of Sterling's (City) financial performance provides an overview of the City's financial activities for the fiscal year ended April 30, 2010. It should be read in conjunction with the City's financial statements.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$30,266,377 (net assets). Of this amount, \$9,242,967 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$843,129 from the prior year. The net assets of the City's business-type activities increased by \$77,620, or .8%, and the net assets of the City's governmental activities decreased by \$920,749, or 4.4%.
- In the City's governmental activities, revenues decreased \$170,812, or 1.2%, and expenses increased \$2,132,801, or 16.7%.
- In the City's business-type activities, revenues decreased \$50,433, or 2.2%, and expenses increased \$58,633, or 2.8%.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$7,944,055, or 80.4% of total General Fund expenditures.

Overview of the Financial Statements

The City's basic financial statements consist of four parts: the Management's Discussion and Analysis (this section), the Independent Auditor's Report, the Basic Financial Statements, and the Required Supplementary Information. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Management's Discussion and Analysis

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works and transportation, community development, and culture and recreation. The business-type activities of the City include sewer and solid waste operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate medical center for which the City is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains nineteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Rock River Tax Increment Allocation Fund, and CDB Tax Increment Allocation Fund, all of which are considered to be major funds. Data from the other eighteen governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in these financial statements.

The City adopts an annual appropriated budget for all of its funds. A budgetary comparison statement has been provided for each major fund to demonstrate compliance with the budget.

Management's Discussion and Analysis

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its sewer and solid waste operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its health insurance. Because this service predominantly benefits governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer operations and solid waste operations, both of which are considered to be major funds of the City.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and the accompanying notes, these financial statements also present certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with the nonmajor governmental funds are presented immediately following the required supplementary information.

Financial Analysis of the City as a Whole

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$30,266,377 at the close of the most recent fiscal year. This analysis focuses on the net assets and changes in net assets of the City's governmental and business-type activities, as summarized in the following tables.

The largest portion of the City's net assets (61.8%) reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Management's Discussion and Analysis

Condensed Statement of Net Assets							
(in millions)							
	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	FY 2010	FY 2009	FY 2010	FY 2009	FY 2010	FY 2009	FY 2009 - FY 2010
Current and other assets	\$ 15.6	\$ 16.4	\$ 3.0	\$ 3.0	\$ 18.6	\$ 19.4	-4.1%
Capital assets	18.7	18.6	9.2	9.3	27.9	27.9	0.0%
Total assets	<u>\$ 34.3</u>	<u>\$ 35.0</u>	<u>\$ 12.2</u>	<u>\$ 12.3</u>	<u>\$ 46.5</u>	<u>\$ 47.3</u>	-1.7%
Long-term liabilities							
outstanding	\$ 7.7	\$ 8.7	\$ 1.8	\$ 2.0	\$ 9.5	\$ 10.7	-11.2%
Other liabilities	6.7	5.4	0.1	0.1	6.8	5.5	23.6%
Total liabilities	<u>\$ 14.4</u>	<u>\$ 14.1</u>	<u>\$ 1.9</u>	<u>\$ 2.1</u>	<u>\$ 16.3</u>	<u>\$ 16.2</u>	0.6%
Net assets:							
Invested in capital assets, net of debt	\$ 11.3	\$ 10.1	\$ 7.4	\$ 7.3	\$ 18.7	\$ 17.4	7.5%
Restricted	2.3	2.5	-	-	2.3	2.5	-8.0%
Unrestricted	6.3	8.3	2.9	2.9	9.2	11.2	-17.9%
Total net assets	<u>\$ 19.9</u>	<u>\$ 20.9</u>	<u>\$ 10.3</u>	<u>\$ 10.2</u>	<u>\$ 30.2</u>	<u>\$ 31.1</u>	-2.9%

An additional portion of the City's net assets (7.7%) represent resources that are subject to external restrictions on how they may be used. There was a decrease of \$136,867 in restricted net assets reported in connection with the City's governmental funds.

The remaining balance of *unrestricted net assets* (\$9,242,967, or 30.5% of total net assets) may be used to meet the City's ongoing obligations to citizens and creditors. There was a decrease of \$1,922,994 in unrestricted net assets reported in connection with the City's governmental funds. A portion of this decrease (\$1,554,268) resulted from the adoption of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Due to this Statement, the City was required to record a liability of \$1,554,268 for other postemployment benefits obligation, which is for health care costs of retirees that are on the City's health plan.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The City's net assets decreased by \$843,129 during the current fiscal year. Before the accrual of the other postemployment benefits obligation of \$1,554,268, the City's net assets would have increased by \$711,139.

Management's Discussion and Analysis

Condensed Statement of Activities							
(in millions)							
	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2009 - FY 2010</u>
Revenues:							
Program revenues:							
Charges for services	\$ 1.6	\$ 1.6	\$ 2.2	\$ 2.2	\$ 3.8	\$ 3.8	0.0%
Operating grants and contributions	0.5	0.3	-	-	0.5	0.3	66.7%
Capital grants and contributions	0.2	0.1	-	-	0.2	0.1	100.0%
General revenues:							
Property taxes	3.4	3.3	-	-	3.4	3.3	3.0%
Other taxes	6.6	7.1	-	0.1	6.6	7.2	-8.3%
Other	1.7	1.7	-	0.1	1.7	1.8	-5.6%
Total revenues	<u>14.0</u>	<u>14.1</u>	<u>2.2</u>	<u>2.4</u>	<u>16.2</u>	<u>16.5</u>	<u>-1.8%</u>
Program expenses:							
General government	2.6	2.4	-	-	2.6	2.4	8.3%
Public safety	5.6	4.3	-	-	5.6	4.3	30.2%
Public works and transportation	3.0	2.9	-	-	3.0	2.9	3.4%
Community development	1.2	0.8	-	-	1.2	0.8	50.0%
Culture and recreation	0.7	0.6	-	-	0.7	0.6	16.7%
Other	1.6	1.5	-	-	1.6	1.5	6.7%
Interest on long-term debt	0.2	0.3	-	-	0.2	0.3	-33.3%
Sewer	-	-	1.6	1.6	1.6	1.6	0.0%
Solid waste	-	-	0.6	0.6	0.6	0.6	0.0%
Total expenses	<u>14.9</u>	<u>12.8</u>	<u>2.2</u>	<u>2.2</u>	<u>17.1</u>	<u>15.0</u>	<u>14.0%</u>
Change in net assets	(0.9)	1.3	-	0.2	(0.9)	1.5	-160.0%
Net assets, beginning of year, as restated	<u>20.8</u>	<u>19.5</u>	<u>10.3</u>	<u>10.1</u>	<u>31.1</u>	<u>29.6</u>	<u>5.1%</u>
Net assets, end of year	<u>\$ 19.9</u>	<u>\$ 20.8</u>	<u>\$ 10.3</u>	<u>\$ 10.3</u>	<u>\$ 30.2</u>	<u>\$ 31.1</u>	<u>-2.9%</u>

Management's Discussion and Analysis

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$7,944,055, while the total fund balance reached \$7,992,741. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 80.4% of total General Fund expenditures, while total fund balance represents 80.9% of that same amount.

The fund balance of the City's General Fund decreased by \$322,402 during the current fiscal year. The prior year General Fund balance increased by 348,818. This large decrease of \$671,220 between years was due to an 8.4% decrease in General Fund revenues that were offset by only a 5.6% decrease in expenditures.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Sewer Fund at the end of the year amounted to \$2,772,753, and those for the Solid Waste Fund amounted to \$132,725. The total growth (reduction) in net assets for both funds was \$157,853 and \$(80,233), respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively minor (\$279,620, or 2.8% decrease in appropriations) and can be briefly summarized as follows:

- \$72,016 in decreases in general government activities (mainly the result of not filling the assistant city manager position)
- \$746 in miscellaneous decreases in public safety
- \$95,446 in decreases allocated to public works and transportation (mainly due to not completing the Phase I North Central regional detention facility at 6th Ave and Lynn Blvd)
- \$20,395 in miscellaneous decreases in community development activities
- \$92,108 in decreases for other expenditures (a portion of which was related to unemployment costs not incurred)
- \$15,957 in decreases to debt service
- \$17,048 in miscellaneous increases in capital outlay

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of April 30, 2010, amounts to \$27,908,745 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, equipment, and infrastructure. The total increase in the City's investment in capital assets for the current fiscal year was less than .1% (a .5% increase for governmental activities and a .9% decrease for business-type activities).

Management's Discussion and Analysis

Major capital asset events during the current fiscal year included the following:

- The Locust/5th Street Drainage Project was completed at a total cost of \$1,119,727.
- The Lynn Boulevard Reconstruction Project (from 16th Ave to Freeport Rd) was completed at a total cost of \$124,030.
- Streetscape Phase VIII was completed at a total cost of \$201,782.

Capital Assets at Year End (in millions)							
	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	FY 2010	FY 2009	FY 2010	FY 2009	FY 2010	FY 2009	FY 2009 - FY 2010
Land	\$ 1.0	\$ 1.0	\$ 0.1	\$ 0.1	\$ 1.1	\$ 1.1	0.0%
Construction in progress	0.1	-	-	0.1	0.1	0.1	0.0%
Buildings and equipment	5.9	5.9	7.0	7.0	12.9	12.9	0.0%
Land improvements	0.8	0.8	-	-	0.8	0.8	0.0%
Infrastructure	22.9	21.7	10.6	10.2	33.5	31.9	5.0%
Subtotal	30.7	29.4	17.7	17.4	48.4	46.8	3.4%
Less: accumulated depreciation	12.0	10.8	8.5	8.1	20.5	18.9	8.5%
Total	<u>\$ 18.7</u>	<u>\$ 18.6</u>	<u>\$ 9.2</u>	<u>\$ 9.3</u>	<u>\$ 27.9</u>	<u>\$ 27.9</u>	0.0%

Long-term debt. At the end of the current fiscal year, the City had \$9,494,749 in bonds and notes outstanding, which is a decrease of \$1,263,368, or 11.7%, over the prior year. No new debt was issued by the City during the current fiscal year.

Outstanding Debt at Year End (in millions)							
	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	FY 2010	FY 2009	FY 2010	FY 2009	FY 2010	FY 2009	FY 2009 - FY 2010
Bonds payable	\$ 7.4	\$ 8.2	\$ -	\$ -	\$ 7.4	\$ 8.2	-9.8%
Leases payable	-	0.1	-	-	-	0.1	-100.0%
Loans payable	-	0.1	1.8	2.0	1.8	2.1	-14.3%
Redevelopment agreements	0.3	0.3	-	-	0.3	0.3	0.0%
Total	<u>\$ 7.7</u>	<u>\$ 8.7</u>	<u>\$ 1.8</u>	<u>\$ 2.0</u>	<u>\$ 9.5</u>	<u>\$ 10.7</u>	-11.2%

Management's Discussion and Analysis

The City maintains an "AA/A-1+" rating from Standard & Poor's for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 8.625% of its total assessed valuation. The current debt limit for the City is \$14,720,747, which is significantly in excess of the City's outstanding general obligation debt of \$-0-.

Economic Factors and Next Year's Budgets and Rates

The City's Council and staff considered many factors while preparing the fiscal year 2011 budget. One concern taken into consideration while preparing the budget is the status of the economy, which takes into account the following:

- The weakening of the economy and declines in the market resulting in lower investment returns and restricting access to capital.
- Rising fuel costs that result in higher costs of most tangible items (e.g., supplies).
- Plant and equipment needs for replacement of aged equipment.

Amounts available for appropriation in the General Fund budget for the 2011 fiscal year are \$9,830,971, a decrease of 4.6% over the final fiscal year 2010 budget of \$10,301,196. Decreases in sales and income taxes are expected to cause this decrease. Because of the anticipated decline in revenues, the City has had to budget for significant cuts across all departments.

Budgeted expenditures in the General Fund are expected to decrease \$464,297, or approximately 4.5%, to \$9,830,971. The largest increments are decreased capital and infrastructure costs and salary declines due to positions being eliminated or not being filled after retirement. These decreases are offset by normal inflationary increases in materials and services.

If these estimates are realized, the City's budgetary General Fund balance is expected to remain unchanged by the close of fiscal year 2011.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 212 3rd Avenue, Sterling, IL 61081.

BASIC FINANCIAL STATEMENTS

CITY OF STERLING, ILLINOIS
STATEMENT OF NET ASSETS
April 30, 2010

	Primary Government			
	Governmental Activities	Business - type Activities	Total	Component Unit
ASSETS				
Cash	\$ 768,630	\$ 261,168	\$ 1,029,798	\$ 8,431,241
Restricted cash	-	41,609	41,609	-
Investments	8,727,644	2,515,626	11,243,270	-
Taxes receivable	3,962,554	-	3,962,554	-
Intergovernmental receivables	1,528,662	6,886	1,535,548	-
Accounts receivable (net of allowance for uncollectibles)	261,805	200,811	462,616	13,210,901
Notes receivable (net of allowance for uncollectibles)	303,937	-	303,937	-
Interest receivable	24,955	7,253	32,208	164,813
Other receivables	-	-	-	1,315,883
Estimated third-party payor settlements	-	-	-	226,047
Due from unconsolidated investees	-	-	-	127,554
Inventories	48,686	-	48,686	1,471,416
Prepaid expenses	-	-	-	1,219,687
Other assets	46,111	-	46,111	-
Capital assets:				
Land and construction in progress	1,107,229	168,136	1,275,365	-
Infrastructure, net	14,321,759	-	14,321,759	-
Other capital assets, net	3,257,745	9,053,876	12,311,621	66,746,664
Assets limited as to use	-	-	-	35,601,585
Unamortized bond issue costs	-	-	-	188,108
Investment in real estate	-	-	-	2,119,894
Net equity in unconsolidated investees	-	-	-	4,323,127
Total assets	<u>34,359,717</u>	<u>12,255,365</u>	<u>46,615,082</u>	<u>135,146,920</u>
LIABILITIES				
Accounts payable	385,593	64,825	450,418	3,539,393
Claims payable	17,498	-	17,498	-
Accrued payroll	150,032	11,892	161,924	-
Accrued interest	86,925	10,324	97,249	-
Deposits	45,892	320	46,212	-
Deferred revenue	4,054,235	-	4,054,235	-
Estimated third-party payor settlements	-	-	-	5,514,996
Other current liabilities	-	-	-	11,299,809
Accrued compensated absences	415,886	40,514	456,400	-
Net pension obligation	15,752	-	15,752	-
Other postemployment benefits obligation	1,554,268	-	1,554,268	-
Long-term liabilities:				
Due within one year	699,540	197,397	896,937	770,378
Due in more than one year	<u>6,986,967</u>	<u>1,610,845</u>	<u>8,597,812</u>	<u>22,396,545</u>
Total liabilities	<u>14,412,588</u>	<u>1,936,117</u>	<u>16,348,705</u>	<u>43,521,121</u>
NET ASSETS				
Invested in capital assets, net of related debt	11,278,224	7,413,770	18,691,994	52,005,841
Restricted for:				
Special revenue	1,684,333	-	1,684,333	-
Debt service	91,196	-	91,196	2,837,497
Capital repairs and replacements	-	-	-	30,250,196
Health development	-	-	-	2,513,892
Capital projects	555,887	-	555,887	-
Unrestricted	<u>6,337,489</u>	<u>2,905,478</u>	<u>9,242,967</u>	<u>4,018,373</u>
Total net assets	\$ 19,947,129	\$ 10,319,248	\$ 30,266,377	\$ 91,625,799

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to basic financial statements.

CITY OF STERLING, ILLINOIS
STATEMENT OF ACTIVITIES
Year Ended April 30, 2010

	Program Revenues				Net (Expense) Revenue and Change in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Unit
					Governmental Activities	Business-Type Activities	
<u>FUNCTIONS/PROGRAMS</u>							
Primary government							
Governmental activities:							
General government							
Public safety	\$ 2,589,714	\$ 1,274,217	\$ 19,000	\$ -	\$ (1,296,497)	\$ -	\$ (1,296,497)
Public works and transportation	5,664,265	192,309	74,786	9,959	(5,387,211)	-	(5,387,211)
Community development	2,996,015	-	-	150,000	(2,846,015)	-	(2,846,015)
Culture and recreation	1,202,563	119,321	141,256	5,000	(936,986)	-	(936,986)
Other	677,974	16,788	213,844	23,250	(424,092)	-	(424,092)
Interest on long-term debt	1,586,136	-	-	-	(1,586,136)	-	(1,586,136)
Total governmental activities	198,393	-	-	-	(198,393)	-	(198,393)
	14,915,060	1,602,635	448,886	188,209	(12,675,330)	-	(12,675,330)
Business-type activities:							
Sewer	1,567,208	1,673,882	-	-	-	106,674	106,674
Solid waste	623,127	483,303	-	-	-	(139,824)	(139,824)
Total business-type activities	2,190,335	2,157,185	-	-	-	(33,150)	(33,150)
Total primary government	\$ 17,105,395	\$ 3,759,820	\$ 448,886	\$ 188,209	(12,675,330)	(33,150)	(12,708,480)
Component unit							
CGH Medical Center	\$ 115,019,370	\$ 112,978,367	\$ 393,816	\$ -			\$ (1,647,187)
General Revenues:							
Property taxes, levied for general purposes					3,433,626	-	3,433,626
Sales tax					4,618,244	-	4,618,244
Personal property replacement tax					380,565	48,740	429,305
Income tax and surcharge					1,202,870	-	1,202,870
Fire protection revenue					194,746	-	194,746
Motor fuel tax					397,913	-	397,913
Investment income					336,022	81,291	417,313
Increase in net equity in unconsolidated investees					-	-	-
Other					1,124,227	3,709	1,127,936
Special item - gain (loss) on disposal of asset					41,368	2,030	43,398
Transfers - internal activity					25,000	(25,000)	-
Total general revenues and transfers					11,754,581	110,770	11,865,351
Change in net assets					(920,749)	77,620	(843,129)
NET ASSETS, BEGINNING OF YEAR,							4,870,610
AS RESTATED					20,867,878	10,241,628	31,109,506
NET ASSETS, END OF YEAR					\$ 19,947,129	\$ 10,319,248	\$ 30,266,377
							\$ 91,625,799

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to basic financial statements.

CITY OF STERLING, ILLINOIS
BALANCE SHEET
GOVERNMENTAL FUNDS
April 30, 2010

	General Fund	Rock River Tax Increment Allocation Fund	CBD Tax Increment Allocation Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 158,207	\$ -	\$ 16,188	\$ 541,488	\$ 715,883
Investments	5,151,282	1,014,836	354,713	2,010,723	8,531,554
Receivables					
Taxes	2,265,614	483,824	288,951	924,165	3,962,554
Intergovernmental	1,413,465	3,895	19,123	92,179	1,528,662
Accounts receivable	45,109	59,700	-	104,540	209,349
Notes	-	-	-	303,937	303,937
Interest	6,686	-	592	17,443	24,721
Inventories	48,686	-	-	-	48,686
Due from other funds	<u>1,627,851</u>	<u>-</u>	<u>-</u>	<u>1,202,571</u>	<u>2,830,422</u>
TOTAL ASSETS	<u>\$ 10,716,900</u>	<u>\$ 1,562,255</u>	<u>\$ 679,567</u>	<u>\$ 5,197,046</u>	<u>\$ 18,155,768</u>
LIABILITIES					
Accounts payable	\$ 196,022	\$ 106,235	\$ -	\$ 83,336	\$ 385,593
Accrued payroll	135,992	-	-	14,040	150,032
Deposits	34,850	-	-	11,042	45,892
Due to other funds	-	1,912,392	852,500	65,530	2,830,422
Deferred revenue	<u>2,357,295</u>	<u>483,824</u>	<u>288,951</u>	<u>924,165</u>	<u>4,054,235</u>
Total liabilities	<u>2,724,159</u>	<u>2,502,451</u>	<u>1,141,451</u>	<u>1,098,113</u>	<u>7,466,174</u>
FUND EQUITY					
Fund balance					
Reserved	48,686	-	-	402,500	451,186
Unreserved					
General	7,944,055	-	-	-	7,944,055
Special revenue	-	(940,196)	(461,884)	3,049,350	1,647,270
Debt service	-	-	-	91,196	91,196
Capital project	-	-	-	555,887	555,887
Total fund equity	<u>7,992,741</u>	<u>(940,196)</u>	<u>(461,884)</u>	<u>4,098,933</u>	<u>10,689,594</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 10,716,900</u>	<u>\$ 1,562,255</u>	<u>\$ 679,567</u>	<u>\$ 5,197,046</u>	<u>\$ 18,155,768</u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to basic financial statements.

CITY OF STERLING, ILLINOIS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
Year Ended April 30, 2010

Total governmental fund balances	\$	10,689,594
----------------------------------	----	------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$11,997,334		18,686,733
---	--	------------

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
General obligations bonds payable		(3,190,000)
Tax increment bonds payable		(3,810,000)
Special service area bonds payable		(408,507)
Redevelopment agreements payable		(278,000)
Net pension obligation		(15,752)
Other postemployment benefit obligation		(1,554,268)
Compensated absences		(415,886)

Accrued interest was recognized for governmental activities, but is not due and payable in the current period and therefore, is not reported as a liability in the governmental funds.		(86,925)
--	--	----------

Bond issue costs are reported as expenditures in the governmental funds. The cost is \$92,221 and accumulated amortization is \$46,110.		46,111
---	--	--------

An internal service fund is used by management to charge the cost of group health to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the statement of net assets:		
Assets	\$ 301,527	
Liabilities	<u>(17,498)</u>	<u>284,029</u>

Total net assets - governmental activities	\$	<u>19,947,129</u>
---	-----------	--------------------------

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to basic financial statements.

CITY OF STERLING, ILLINOIS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year Ended April 30, 2010

	General Fund	Rock River Tax Increment Allocation Fund	CBD Tax Increment Allocation Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 6,124,037	\$ 446,658	\$ 396,624	\$ 1,084,551	\$ 8,051,870
Intergovernmental	1,769,064	33,118	-	543,231	2,345,413
Licenses and permits	719,626	-	-	-	719,626
Fines and penalties	192,309	-	-	-	192,309
Charges for services	55,067	-	-	158,968	214,035
Investment income	225,423	175	11,582	85,529	322,709
Donations	274,200	-	-	152,290	426,490
Other	407,279	10	-	758,224	1,165,513
Total revenues	<u>9,767,005</u>	<u>479,961</u>	<u>408,206</u>	<u>2,782,793</u>	<u>13,437,965</u>
EXPENDITURES					
Current					
General government	395,200	-	-	486,150	881,350
Public safety	4,111,934	-	-	58,027	4,169,961
Public works and transportation	1,828,342	-	-	288,681	2,117,023
Community development	310,913	539,488	1,705	300,585	1,152,691
Culture and recreation	-	-	-	675,630	675,630
Other	2,484,531	-	-	-	2,484,531
Debt service					
Principal	238,470	120,000	375,000	338,264	1,071,734
Interest	10,004	24,309	67,725	108,179	210,217
Capital outlay	495,584	-	-	741,944	1,237,528
Total expenditures	<u>9,874,978</u>	<u>683,797</u>	<u>444,430</u>	<u>2,997,460</u>	<u>14,000,665</u>
Deficiency of revenues over expenditures	<u>(107,973)</u>	<u>(203,836)</u>	<u>(36,224)</u>	<u>(214,667)</u>	<u>(562,700)</u>
OTHER FINANCING SOURCES (USES)					
Sale of property	1,571	-	-	39,797	41,368
Operating transfers in	25,000	-	16,000	225,000	266,000
Operating transfers out	(241,000)	-	-	-	(241,000)
Total other financing sources (uses)	<u>(214,429)</u>	<u>-</u>	<u>16,000</u>	<u>264,797</u>	<u>66,368</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(322,402)	(203,836)	(20,224)	50,130	(496,332)
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	<u>8,315,143</u>	<u>(736,360)</u>	<u>(441,660)</u>	<u>4,048,803</u>	<u>11,185,926</u>
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ 7,992,741</u>	<u>\$ (940,196)</u>	<u>\$ (461,884)</u>	<u>\$ 4,098,933</u>	<u>\$ 10,689,594</u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to basic financial statements.

CITY OF STERLING, ILLINOIS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended April 30, 2010

Net change in fund balances - total governmental funds \$ (496,332)

Amounts reported for governmental activities in the statement of net assets are different because:

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current year.

92,377

Issuance of long-term debt provides current financial resources to governmental funds in the period issued, but issuing long-term debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Issuances	\$ -	
Payments	1,071,734	
Change in compensated absences	(30,550)	
Change in other postemployment benefits obligation	(1,554,268)	
Change in net pension obligation	(140,573)	
Accrued interest	<u>11,824</u>	(641,833)

Governmental funds report the effect of issuance costs and discounts as expenditures when debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities.

(9,222)

Internal service funds are used by management to account for the costs of insurance. The net revenue of the internal service fund is reported with governmental activities.

Change in Net Assets	<u>134,261</u>
----------------------	----------------

Change in net assets of governmental activities \$ (920,749)

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to basic financial statements.

CITY OF STERLING, ILLINOIS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
April 30, 2010

	Business-type Activities - Enterprise Fund Sewer	Business-type Activities - Enterprise Fund Solid Waste	Total Business-type Activities	Governmental Activities - Internal Service Fund
ASSETS				
Current assets				
Cash	\$ 261,168	\$ -	\$ 261,168	\$ 52,747
Restricted cash	41,609	-	41,609	-
Investments	2,380,601	135,025	2,515,626	196,090
Intergovernmental receivable	-	6,886	6,886	-
Accounts receivable (net of allowance for doubtful accounts of \$19,000 for Sewer and \$3,900 for Solid Waste)	153,966	46,845	200,811	52,456
Accrued interest	7,086	167	7,253	234
Due from other funds	4,697	-	4,697	-
Total current assets	<u>2,849,127</u>	<u>188,923</u>	<u>3,038,050</u>	<u>301,527</u>
Property and equipment				
Land	148,598	-	148,598	-
Utility system	6,966,801	-	6,966,801	-
Inceptors	1,563,440	-	1,563,440	-
Storm sewers	5,324,921	-	5,324,921	-
Separation work	3,676,298	-	3,676,298	-
Construction in progress	19,538	-	19,538	-
	<u>17,699,596</u>	<u>-</u>	<u>17,699,596</u>	<u>-</u>
Accumulated depreciation	<u>8,477,584</u>	<u>-</u>	<u>8,477,584</u>	<u>-</u>
Total capital assets (net of accumulated depreciation)	<u>9,222,012</u>	<u>-</u>	<u>9,222,012</u>	<u>-</u>
TOTAL ASSETS	<u>12,071,139</u>	<u>188,923</u>	<u>12,260,062</u>	<u>301,527</u>
LIABILITIES				
Current liabilities				
Accounts payable	20,262	44,563	64,825	-
Claims payable	-	-	-	17,498
Accrued payroll	11,164	728	11,892	-
Deposits	-	320	320	-
Accrued vacation	34,624	5,890	40,514	-
Accrued interest	10,324	-	10,324	-
Due to other funds	-	4,697	4,697	-
Current portion of notes payable	197,397	-	197,397	-
Total current liabilities	<u>273,771</u>	<u>56,198</u>	<u>329,969</u>	<u>17,498</u>
Noncurrent liabilities				
Notes payable (net of current portion)	<u>1,610,845</u>	<u>-</u>	<u>1,610,845</u>	<u>-</u>
Total noncurrent liabilities	<u>1,610,845</u>	<u>-</u>	<u>1,610,845</u>	<u>-</u>
Total liabilities	<u>1,884,616</u>	<u>56,198</u>	<u>1,940,814</u>	<u>17,498</u>
NET ASSETS				
Invested in capital assets, net of related debt	7,413,770	-	7,413,770	-
Unrestricted	<u>2,772,753</u>	<u>132,725</u>	<u>2,905,478</u>	<u>284,029</u>
Total net assets	<u>\$ 10,186,523</u>	<u>\$ 132,725</u>	<u>\$ 10,319,248</u>	<u>\$ 284,029</u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to basic financial statements.

CITY OF STERLING, ILLINOIS
COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - PROPRIETARY FUND TYPES
Year Ended April 30, 2010

	Business-type Activities - Enterprise Fund Sewer	Business-type Activities - Enterprise Fund Solid Waste	Total Business-type Activities -	Governmental Activities - Internal Service Fund
OPERATING REVENUE				
Sewer use and hook-up fees	\$ 1,673,882	\$ -	\$ 1,673,882	\$ -
Solid waste service fees	-	483,303	483,303	-
Employer contributions	-	-	-	1,232,290
Employee contributions	-	-	-	296,165
Other revenue	3,609	100	3,709	-
Total operating revenue	<u>1,677,491</u>	<u>483,403</u>	<u>2,160,894</u>	<u>1,528,455</u>
OPERATING EXPENSES				
Administration	-	-	-	205,228
Life insurance premiums	-	-	-	11,191
Waste water treatment plant	658,288	-	658,288	-
Solid waste disposal	-	623,127	623,127	-
Maintenance	8,180	-	8,180	-
Billing and collection	161,472	-	161,472	-
Non-departmental	325,992	-	325,992	-
Benefit payments	-	-	-	1,191,088
Depreciation	359,856	-	359,856	-
Total operating expenses	<u>1,513,788</u>	<u>623,127</u>	<u>2,136,915</u>	<u>1,407,507</u>
Operating income (loss)	<u>163,703</u>	<u>(139,724)</u>	<u>23,979</u>	<u>120,948</u>
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental	-	48,740	48,740	-
Interest income	80,991	8,126	89,117	12,359
Net change in fair value of investments	(8,421)	595	(7,826)	954
Interest expense	(53,420)	-	(53,420)	-
Total nonoperating revenues (expenses)	<u>19,150</u>	<u>57,461</u>	<u>76,611</u>	<u>13,313</u>
Net income (loss) before other financing sources (uses)	<u>182,853</u>	<u>(82,263)</u>	<u>100,590</u>	<u>134,261</u>
OTHER FINANCING SOURCES (USES)				
Sale of property	-	2,030	2,030	-
Operating transfers out	(25,000)	-	(25,000)	-
Total other financing sources (uses)	<u>(25,000)</u>	<u>2,030</u>	<u>(22,970)</u>	<u>-</u>
Net income (loss)	157,853	(80,233)	77,620	134,261
NET ASSETS, BEGINNING OF YEAR	<u>10,028,670</u>	<u>212,958</u>	<u>10,241,628</u>	<u>149,768</u>
NET ASSETS, END OF YEAR	<u>\$ 10,186,523</u>	<u>\$ 132,725</u>	<u>\$ 10,319,248</u>	<u>\$ 284,029</u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to basic financial statements.

CITY OF STERLING, ILLINOIS
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
Year Ended April 30, 2010

	Business-type Activities - Enterprise Fund Sewer	Business-type Activities - Enterprise Fund Solid Waste	Total Business-type Activities	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from interfund services provided	\$ -	\$ -	\$ -	\$ 1,528,455
Receipts from customers	1,673,729	481,757	2,155,486	-
Payments to employees	6,729	638	7,367	-
Payments to suppliers	(1,152,932)	(613,698)	(1,766,630)	-
Payments for premiums, claims, and related services	-	-	-	(1,265,478)
Payments from (to) other funds	791,202	4,697	795,899	(355,899)
Net cash provided by (used in) operating activities	<u>1,318,728</u>	<u>(126,606)</u>	<u>1,192,122</u>	<u>(92,922)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
State replacement tax	-	41,854	41,854	-
Operating transfers to other funds	(25,000)	-	(25,000)	-
Net cash provided by (used in) non-capital financing activities	<u>(25,000)</u>	<u>41,854</u>	<u>16,854</u>	<u>-</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Principal paid on notes payable	(191,634)	-	(191,634)	-
Interest paid on notes payable	(54,485)	-	(54,485)	-
Capital assets acquired	(275,377)	-	(275,377)	-
Proceeds from the sale of capital assets	-	2,030	2,030	-
Net cash provided by (used in) capital financing activities	<u>(521,496)</u>	<u>2,030</u>	<u>(519,466)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(1,583,534)	(16,953)	(1,600,487)	(9,286)
Proceeds from the sale of investments	998,677	38,857	1,037,534	115,657
Interest received	79,526	8,150	87,676	12,410
Net cash provided by (used in) investing activities	<u>(505,331)</u>	<u>30,054</u>	<u>(475,277)</u>	<u>118,781</u>
NET CHANGE IN CASH	266,901	(52,668)	214,233	25,859
CASH, BEGINNING OF YEAR	<u>35,876</u>	<u>52,668</u>	<u>88,544</u>	<u>26,888</u>
CASH, END OF YEAR	<u><u>\$ 302,777</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 302,777</u></u>	<u><u>\$ 52,747</u></u>
RECONCILIATION OF OPERATING INCOME TO NET				
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ 163,703	\$ (139,724)	\$ 23,979	\$ 120,948
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation	359,856	-	359,856	-
Effects of changes in operating assets and liabilities				
Accounts receivable	(3,762)	(1,646)	(5,408)	179,185
Due from other funds	791,202	-	791,202	-
Accounts payable	1,000	9,429	10,429	-
Claims payable	-	-	-	(37,156)
Accrued payroll	1,065	70	1,135	-
Compensated absences	5,664	568	6,232	-
Due to other funds	-	4,697	4,697	(355,899)
	<u><u>\$ 1,318,728</u></u>	<u><u>\$ (126,606)</u></u>	<u><u>\$ 1,192,122</u></u>	<u><u>\$ (92,922)</u></u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to basic financial statements.

CITY OF STERLING, ILLINOIS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
April 30, 2010

	Pension Trust Funds	Private Purpose Trust Trust Committee Fund
ASSETS		
Cash	\$ 84,775	\$ 1,182
Accrued interest receivable	50,741	-
Investments, at fair value	<u>20,587,652</u>	<u>-</u>
TOTAL ASSETS	<u>20,723,168</u>	<u>1,182</u>
 LIABILITIES	 <u>474</u>	 <u>-</u>
 NET PLAN ASSETS HELD IN TRUST FOR PENSION BENEFITS	 <u><u>\$ 20,722,694</u></u>	 <u><u>\$ 1,182</u></u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to basic financial statements.

CITY OF STERLING, ILLINOIS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended April 30, 2010

	Pension Trust Funds	Private Purpose Trust Trust Committee Fund
ADDITIONS		
Contributions		
Employer	\$ 579,702	\$ -
Plan members	285,310	-
Total contributions	<u>865,012</u>	<u>-</u>
Investment income		
Interest earned	527,070	9
Net change in fair value	2,376,220	-
Total investment income	<u>2,903,290</u>	<u>9</u>
Other revenue	3,661	-
Total other revenue	<u>3,661</u>	<u>-</u>
Total additions	<u>3,771,963</u>	<u>9</u>
DEDUCTIONS		
Administrative	144,906	1,400
Benefits	1,371,888	-
Total deductions	<u>1,516,794</u>	<u>1,400</u>
NET INCREASE (DECREASE)	2,255,169	(1,391)
NET ASSETS HELD IN TRUST, BEGINNING OF YEAR	<u>18,467,525</u>	<u>2,573</u>
NET ASSETS HELD IN TRUST, END OF YEAR	<u><u>\$ 20,722,694</u></u>	<u><u>\$ 1,182</u></u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to basic financial statements.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 1. Nature of Entity and Summary of Significant Accounting Policies

REPORTING ENTITY

The City of Sterling (City) is a municipal corporation established in 1857 governed by an elected Mayor and Council. As required by generally accepted accounting principles, these financial statements present the City (the primary government) and its component unit. In evaluating how to define the reporting entity, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was based upon the significance of its operational or financial relationship with the primary government.

The financial statements of the City of Sterling, Illinois have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

These financial statements present the City (the primary government) and its component unit, CGH Medical Center (Medical Center).

The CGH Medical Center provides health care services to residents of the City and the surrounding communities. The Center's board is appointed by the Mayor with the consent of the City Council. The Center is included in the reporting entity since it is financially accountable, as ownership lies with the City. Separate audited financial statements of the Center are available by contacting CGH Medical Center.

GOVERNMENT WIDE, FUND FINANCIAL STATEMENTS AND BASIS OF ACCOUNTING

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major and aggregate nonmajor funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The government-wide financial statements report on all of the nonfiduciary activities of the primary government.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 1. Nature of Entity and Summary of Significant Accounting Policies (Continued)

GOVERNMENT WIDE, FUND FINANCIAL STATEMENTS AND BASIS OF ACCOUNTING (CONTINUED)

are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (police, fire, public works, etc.). The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (police, public works, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property or sales tax, intergovernmental revenues, interest income, etc.).

The City does not allocate indirect costs.

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The City can selectively add funds, as major funds, which either had debt outstanding or specific community focus. The nonmajor funds are combined in a column in the fund financial statements.

The following fund types are used by the City:

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 1. Nature of Entity and Summary of Significant Accounting Policies (Continued)

GOVERNMENT WIDE, FUND FINANCIAL STATEMENTS AND BASIS OF ACCOUNTING (CONTINUED)

Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

General Fund is the general operating fund of the City which accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, general long-term debt, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities which are not financed by Proprietary and Trust Funds.

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City:

Enterprise Funds

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 1. Nature of Entity and Summary of Significant Accounting Policies (Continued)

GOVERNMENT WIDE, FUND FINANCIAL STATEMENTS AND BASIS OF ACCOUNTING (CONTINUED)

Enterprise Funds (Continued)

maintenance, public policy, management control, accountability, or other purposes. Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds*, the City has chosen to apply all GASB pronouncements as well as those FASB pronouncements issued on or before November 30, 1989, to account for proprietary funds.

The City maintains two enterprise funds.

Internal Service Funds account for the financing of goods or services provided by one department to other departments or agencies of the City on a cost-reimbursement basis.

The City maintains one internal service fund.

Fiduciary Fund Types

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net assets and changes in net assets and is reported using accounting principles similar to proprietary funds.

The City's fiduciary funds are presented in the fiduciary fund financial statements by type (pension, private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Reporting Major, Nonmajor and Fiduciary Funds

The City reports the following major funds:

General Fund - This fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 1. Nature of Entity and Summary of Significant Accounting Policies (Continued)

GOVERNMENT WIDE, FUND FINANCIAL STATEMENTS AND BASIS OF ACCOUNTING (CONTINUED)

Reporting Major, Nonmajor and Fiduciary Funds (Continued)

Rock River Tax Increment Allocation Fund - This fund is used to account for the revenues and expenditures associated with TIF activities in the Rock River Redevelopment District. Financing is provided by incremental sales and property taxes.

CBD (Central Business District) Tax Increment Allocation Fund - This fund is used to account for the revenues and expenditures associated with TIF activities in the Central Business District. Financing is provided by incremental sales and property taxes.

Sewer Fund - This fund is used to account for the revenues and expenditures associated with sewer service. Financing is provided by sewer user charges.

Solid Waste Fund - This fund is used to account for the revenues and expenditures associated with solid waste disposal service. Financing is provided by solid waste disposal charges.

BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Accrual

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues except for property taxes are recognized when earned and expenses are recognized when incurred. Property taxes are recognized in the period for which the taxes are levied.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 1. Nature of Entity and Summary of Significant Accounting Policies (Continued)

BASIS OF ACCOUNTING (CONTINUED)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. The City has elected to take exception to this assumption for income tax revenue remitted by the State of Illinois. Due to the State being late with these payments, the City considers those amounts applicable to the current fiscal year to be available if they have been vouchered by the State and will be paid after the 60 day period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Property taxes are recorded as revenue when levied for budgetary purposes. Penalties and interest, court fees, and miscellaneous revenues are recorded when received in cash because they are generally not measurable until actually received. Intergovernmental revenue and interest income associated with the current fiscal period are considered to be susceptible to accrual, to the extent that any purpose restriction has been met for intergovernmental revenue, and so have been recognized as revenues of the current period. Sales, income, and motor fuel taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenue at that time.

ADOPTION OF NEW ACCOUNTING STANDARD

As further discussed in Note 8, effective May 1, 2009, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement requires a systematic, accrual basis measurement and recognition of other postemployment benefit (OPEB) expense over a period that approximates employees' years of service. The Statement also requires the information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 1. Nature of Entity and Summary of Significant Accounting Policies (Continued)

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BUDGETS

Annual budgets are adopted for all governmental funds using the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end.

The City prepares an appropriation ordinance and budget for the General, Special Revenue, Debt Service, Capital Projects and Enterprise Funds. The appropriation ordinance represents the legal spending limits for the City. The budget is used to control those limits. The appropriation ordinance and budget was passed on April 20, 2009. The budget lapses at the end of each fiscal year. The City does not utilize an encumbrance system.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a) Prior to April 30, the City prepares an annual appropriation ordinance and budget for the fiscal year commencing May 1 of that year. The budget includes proposed expenditures and the means of financing them.
- b) Public hearings are conducted to obtain taxpayer comments.
- c) Legal spending and management control for City monies is at the fund level. The City may amend the ordinance by a majority vote of all City Council members.

CASH EQUIVALENTS

For purposes of the statement of cash flows, the City considered cash equivalents to be all cash on hand and any certificates of deposit with an original maturity of three months or less. Any maturity dates over three months are presented as investments.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 1. Nature of Entity and Summary of Significant Accounting Policies (Continued)

INVESTMENTS

State statutes authorize the government to invest in the following:

- (1) Commercial banks
- (2) Savings and loan institutions
- (3) Obligations of the U. S. Treasury and U. S. Agencies
- (4) Obligations of States and their political subdivisions
- (5) Credit union shares
- (6) Repurchase agreements
- (7) Commercial paper rated within the three highest classifications by at least two standard rating services
- (8) Illinois Public Treasurer's Investment Pool

In addition, the Police and Firefighters' Pension Trust Funds may invest in other investments including general and special accounts of life insurance companies, mutual funds, bank managed funds and equities.

Investments are reported at fair value which is determined using selected bases. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

SHORT-TERM INTERFUND RECEIVABLES/PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans, if any, are also classified as "due from other funds" or "due to other funds" on the balance sheet. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

INVENTORIES

The cost of inventories are recorded as expenditures/expenses when consumed rather than when purchased. Inventory is valued at lower of cost or market (FIFO basis).

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 1. Nature of Entity and Summary of Significant Accounting Policies (Continued)

CAPITAL ASSETS

Capital assets purchased or acquired with an original cost of \$5,000 or more for equipment, \$20,000 or more for buildings and improvements, and \$50,000 or more for infrastructure, are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expenses as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Computer equipment	5 years
Other equipment	10 years
Vehicles	7 years
Buildings	40 years
Building improvements	20 years
Road improvements (overlays, resurfacing)	10 years
Road infrastructure (restructuring)	20 years
Other infrastructure	50 years

GASB Statement No. 34 required the City to report and depreciate newly acquired infrastructure assets effective for the year ended April 30, 2004. Infrastructure assets include roads, bridges, underground pipe, traffic signals, etc. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for fiscal years ending in 2008 (other than proprietary funds). The City implemented the general provisions of GASB Statement No. 34 in the year ended April 30, 2004 and is reporting infrastructure prospectively in accordance with the Statement.

PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1. The City's property tax is levied each year at the time the budget for the ensuing year is passed and is extended against the assessed valuation of the City on January 1 of that year. Taxes are due and payable in two installments in June and September.

Property taxes are accrued as a receivable in the period in which the City has an enforceable lien on property. However, recognition of the revenue is deferred until the property taxes are both measurable and available and in the period for which levied. Property tax revenue recorded on the City for the year ended April 30, 2009 represents installments of the 2008 property taxes which were received during 2009. The 2009 property tax levy has been deferred at April 30, 2010, as it was budgeted for fiscal year 2011.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 1. Nature of Entity and Summary of Significant Accounting Policies (Continued)

LONG-TERM OBLIGATIONS

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable, notes payable, accrued compensated absences, and net pension obligations. Bond issuance costs, bond discounts or premiums are capitalized and amortized over the terms of the respectable bonds.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest and bond issuance costs are reported as expenditures. The accounting for proprietary fund long-term debt is the same in the fund statements as it is in the government-wide statements.

FUND EQUITY/NET ASSETS

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation, which include various local taxes that are restricted to certain specified purposes.
- c. Unrestricted net assets – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 1. Nature of Entity and Summary of Significant Accounting Policies (Continued)

FUND EQUITY/NET ASSETS (CONTINUED)

Use of Restricted/Unrestricted Net Assets

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through enabling legislation.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Reserves represent those portions of fund equity that are legally segregated for a specific future use or not appropriable for expenditure. Proprietary fund equity is classified the same as in the government-wide statements.

INTERFUND TRANSACTIONS

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as operating transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 2. Deposits and Investments

Primary Government

The City's investment policy allows them to invest in any type of security allowed for in Illinois statutes regarding the investment of public funds. In general, the City may invest in obligations of the United States of America or its agencies (or guaranteed by the full faith and credit of the same) and certain time deposits and short-term obligations as defined in the Public Fund Investment Act. At year-end, the carrying amount of the City's cash and deposits was \$1,106,705 and the bank balances totaled \$1,240,186. Cash on hand was \$50,659.

At year end, the investment maturities are as follows:

	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>10 or more</u>
Certificates of Deposit	\$ 1,782,695	\$ 499,125	\$1,283,570	\$ -	\$ -
Money Market	2,050,333	2,050,333	-	-	-
U.S. Treasuries	6,599,828	138,029	4,558,562	1,067,204	836,033
U.S. Agencies	9,907,632	-	6,432	78,853	9,822,347
Illinois Treasurer's Investment	1,429,103	1,429,103	-	-	-
Mutual Funds	5,794,789	5,794,789	-	-	-
Annuities	3,071,650	3,071,650	-	-	-
Stock	<u>1,194,892</u>	<u>1,194,892</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$31,830,922</u>	<u>\$14,177,921</u>	<u>\$5,848,564</u>	<u>\$1,146,057</u>	<u>\$10,658,380</u>

Investments in The Illinois Funds

The State Treasurer maintains the Illinois Treasurer's Investment Pool (Pool) at cost and fair value through daily adjustment in the interest earnings. The State Treasurer also maintains the average duration of the Pool at less than 25 days. The Pool is audited annually by an outside independent auditor and copies of the report are distributed to participants. The Pool maintains a Standard and Poor's AAA rating. The relationship between the City and the investment agent is a direct contractual relationship and the investments are not supported by a transferable instrument that evidences ownership or creditorship. At April 30, 2010, the City had \$1,429,103 in the Pool, which approximates fair value.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 2. Deposits and Investments (Continued)

Investments in The Illinois Funds (Continued)

All funds deposited in the Pool are classified as investments even though some could be withdrawn on a day's notice. Although not subject to direct regulatory oversight, the fund is administered in accordance with the provisions of the Illinois Public Funds Investment Act, 30 ILCS 235.

Interest Rate Risk

The City does not have a formal investment policy that limits maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The City's investment policy is to apply the prudent person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to conform with legal requirements, seek reasonable income, preserve capital, maintain liquidity, and in general, avoid speculative instruments. The City's investments in the Illinois Treasurers' Investment Pool maintain a rating of AAA by Standard and Poor's. The City's investments in bonds of the U.S. Agencies were rated AAA and Aaa by Moody's Investors Service.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy follows the laws set forth in the Illinois Compiled Statutes. As of April 30, 2010, none of the City's deposits were exposed to custodial credit risk.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issue. As of April 30, 2010, no single investment of the City was over 5.00% of the City's total investment.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 3. Capital Assets

Capital asset activity for the year ended April 30, 2010, was as follows:

	<u>Balance at May 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at April 30, 2010</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 994,516	\$ -	\$ -	\$ 994,516
Construction in progress	<u>133,409</u>	<u>1,100,523</u>	<u>1,121,219</u>	<u>112,713</u>
Total capital assets not being depreciated	<u>1,127,925</u>	<u>1,100,523</u>	<u>1,121,219</u>	<u>1,107,229</u>
Capital assets being depreciated				
Buildings	1,460,597	11,843	-	1,472,440
Equipment	4,427,958	26,761	-	4,454,719
Land improvements	787,920	-	-	787,920
Infrastructure	<u>21,642,140</u>	<u>1,219,619</u>	<u>-</u>	<u>22,861,759</u>
Total capital assets being depreciated	<u>28,318,615</u>	<u>1,258,223</u>	<u>-</u>	<u>29,576,838</u>
Less accumulated depreciation for				
Buildings	526,012	50,079	-	576,091
Equipment	2,346,493	292,830	-	2,639,323
Land improvements	226,057	15,863	-	241,920
Infrastructure	<u>7,753,622</u>	<u>786,378</u>	<u>-</u>	<u>8,540,000</u>
Total accumulated depreciation	<u>10,852,184</u>	<u>1,145,150</u>	<u>-</u>	<u>11,997,334</u>
Total capital assets being depreciated, net	<u>17,466,431</u>	<u>113,073</u>	<u>-</u>	<u>17,579,504</u>
Governmental activities capital assets, net	<u>\$18,594,356</u>	<u>\$1,213,596</u>	<u>\$1,121,219</u>	<u>\$18,686,733</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 3. Capital Assets (Continued)

	<u>Balance at May 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at April 30, 2010</u>
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 148,598	\$ -	\$ -	\$ 148,598
Construction in progress	<u>68,479</u>	<u>299,459</u>	<u>348,400</u>	<u>19,538</u>
Total capital assets not being depreciated	<u>217,077</u>	<u>299,459</u>	<u>348,400</u>	<u>168,136</u>
Capital assets being depreciated				
Buildings and equipment	6,966,801	-	-	6,966,801
Interceptors, mains, and pump stations	1,563,440	-	-	1,563,440
Storm sewers	5,000,603	324,320	-	5,324,923
Sewer separation work	<u>3,676,298</u>	<u>-</u>	<u>-</u>	<u>3,676,298</u>
Total capital assets being depreciated	<u>17,207,142</u>	<u>324,320</u>	<u>-</u>	<u>17,531,462</u>
Less accumulated depreciation:				
Buildings and equipment	3,377,233	157,087	-	3,534,320
Inceptors, mains, and pump stations	1,006,737	27,134	-	1,033,871
Storm sewers	1,586,541	101,845	-	1,688,386
Sewer separation work	<u>2,147,218</u>	<u>73,791</u>	<u>-</u>	<u>2,221,009</u>
Total accumulated depreciation	<u>8,117,729</u>	<u>359,857</u>	<u>-</u>	<u>8,477,586</u>
Total capital assets being depreciated	<u>9,089,413</u>	<u>(35,537)</u>	<u>-</u>	<u>9,053,876</u>
Business-type activities capital assets, net	<u>\$ 9,306,490</u>	<u>\$263,922</u>	<u>\$348,400</u>	<u>\$ 9,222,012</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 3. Capital Assets (Continued)

Depreciation expense was charged as direct expense to programs of the City as follows:

Governmental activities:

General government	\$ 103,369
Public safety	155,087
Public works and transportation	763,293
Community development	13,606
Culture and recreation	29,040
Other	<u>80,755</u>

Total depreciation expense	<u><u>\$1,145,150</u></u>
----------------------------	---------------------------

Business-type activities:

Sewer	\$359,857
Solid waste	<u>-</u>

Total depreciation expense	<u><u>\$359,857</u></u>
----------------------------	-------------------------

Note 4. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The City is insured for property, general liability, workers compensation, and other risks except for employee health.

The City is self-insured for employee health care, which is accounted for in an internal service fund. The City purchases specific and excess insurance to limit its exposure to loss, the specific coverage is \$60,000 per employee and \$1,417,369 in the aggregate. Each participating fund and component unit makes payments to the self-insurance fund. Such payments are displayed on the financial statements as revenues and expenditures/expenses (quasi-external transfers). The City has accrued a liability for claims incurred and reported as well as an estimate of claims incurred but not reported. A reconciliation of the claims liability is as follows:

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 4. Risk Management (Continued)

Claims payable, April 30, 2009	\$ 54,654
Claims incurred	1,191,088
Claims paid	<u>(1,228,244)</u>
Claims payable, April 30, 2010	<u>\$ 17,498</u>

Note 5. Long-Term Debt

Transactions for the year ended April 30, 2010 are summarized as follows:

	<u>Balance at May 1, 2009</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at April 30, 2010</u>	<u>Due Within 1 Year</u>
Governmental activities:					
Bonds payable	\$8,216,772	\$ -	\$ 808,265	\$7,408,507	\$674,540
Leases payable	145,350	-	145,350	-	-
Loans payable	93,119	-	93,119	-	-
Redevelopment agreements	303,000	-	25,000	278,000	25,000
Compensated absences	385,336	41,479	10,929	415,886	-
Net pension obligation	<u>-</u>	<u>15,752</u>	<u>-</u>	<u>15,752</u>	<u>-</u>
	<u>\$9,143,577</u>	<u>\$ 57,231</u>	<u>\$1,082,663</u>	<u>\$8,118,145</u>	<u>\$699,540</u>
Business-type activities:					
Notes payable	\$1,999,876	\$ -	\$191,634	\$1,808,242	\$197,397
Compensated absences	<u>34,282</u>	<u>6,232</u>	<u>-</u>	<u>40,514</u>	<u>-</u>
	<u>\$2,034,158</u>	<u>\$6,232</u>	<u>\$191,634</u>	<u>\$1,848,756</u>	<u>\$197,397</u>

Governmental Activities

Bonds Payable

\$1,535,000 General Obligation Refunding Bonds (Alternate Revenue Source) dated September 15, 2005 due in annual installments of \$105,000 to \$160,000 due on March 1 of each year with interest at 2.95% to 3.75% due March 1 and September 1 each year through March 1, 2017.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 5. Long-Term Debt (Continued)

Governmental Activities (Continued)

Bonds Payable (Continued)

Payments are due as follows:

<u>Year Ended</u> <u>April 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$120,000	\$ 35,317
2012	130,000	31,298
2013	140,000	26,943
2014	140,000	22,253
2015	150,000	17,212
2016-2017	<u>315,000</u>	<u>17,812</u>
Total	<u>\$995,000</u>	<u>\$150,835</u>

Ordinance 2005-09-29 was passed by the City Council for issuance of Series 2005 General Obligation Refunding Bonds (Alternate Revenue Source) in an amount of \$1,535,000. The ordinance authorizing the bond issue imposed certain conditions on the City as follows:

Pledged Motor Fuel Tax Account with pledged motor fuel taxes deposited until an amount is obtained for payment of the next interest and principal requirement.

\$3,885,000 General Obligation Bonds (Alternate Revenue Source) dated May 1, 2001 due in annual installments of \$225,000 to \$440,000 due on March 1 of each year with interest at 4.25% to 4.30% due March 1 and September 1 each year through March 1, 2013. Payments are due as follows:

<u>Year Ended</u> <u>April 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 375,000	\$ 52,675
2012	410,000	36,550
2013	<u>440,000</u>	<u>18,920</u>
Total	<u>\$1,225,000</u>	<u>\$108,145</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 5. Long-Term Debt (Continued)

Governmental Activities (Continued)

Bonds Payable (Continued)

Ordinance 2001-04-16 was passed by the City Council for issuance of Series 2001 General Obligation Bonds (Sales Tax/Tax Increment Alternate Revenue Source) in an amount of \$3,885,000. The ordinance authorizing the bond issue imposed certain conditions on the City as follows:

Gross Sales Tax Account with pledged sales and incremental taxes deposited until an amount is obtained for payment of the next interest and principal requirement.

During the fiscal year ended April 30, 1996, the City issued \$390,000 of Special Service Area Bonds for the Tori Pines Subdivision. These bonds are payable solely from the taxes levied in the special service area. The bonds are due in semi-annual installments of \$6,500 to \$12,750 due on July 1 and October 1 each year. Interest is at 5.50% and also paid on July 1 and October 1 each year.

Payments are due as follows:

<u>Year Ended</u> <u>April 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 22,000	\$ 8,184
2012	25,500	6,932
2013	25,500	5,510
2014	25,500	4,088
2015	25,500	2,666
2016	<u>25,500</u>	<u>1,244</u>
Total	<u>\$149,500</u>	<u>\$28,624</u>

During the fiscal year ended April 30, 1999, the City issued \$370,000 of Special Service Area Bonds for the Greenridge Subdivision. These bonds are payable solely from the taxes levied in the special service area. The bonds are due in annual installments due on October 15 each year.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 5. Long-Term Debt (Continued)

Governmental Activities (Continued)

Bonds Payable (Continued)

Interest is at 6.00% and also paid on October 15 each year. Payments are due as follows:

<u>Year Ended</u> <u>April 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 22,539	\$ 15,541
2012	23,892	14,188
2013	25,325	12,755
2014	26,845	11,235
2015	28,456	9,624
2016 - 2019	<u>131,950</u>	<u>20,368</u>
Total	<u>\$259,007</u>	<u>\$83,711</u>

Ordinance 2003-01-11 was passed by the City Council for issuance of Series 2003 Tax Increment Revenue Bonds in an amount not to exceed \$4,300,000.

During the fiscal year ended April 30, 2003, the City issued \$4,245,000 of Tax Increment Revenue Bonds, Series 2003 for the Rock River Redevelopment Project. These bonds are payable solely from the taxes levied in the tax increment allocation district. The bonds are due in annual installments due on December 1 each year.

Interest is at 3.80% and also paid on December 1 each year. Payments are due as follows:

<u>Year Ended</u> <u>April 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 135,000	\$ 144,780
2012	155,000	139,650
2013	180,000	133,760
2014	205,000	126,920
2015	230,000	119,130
2016 - 2020	1,560,000	444,790
2021 - 2023	<u>1,345,000</u>	<u>105,260</u>
Total	<u>\$3,810,000</u>	<u>\$1,214,290</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 5. Long-Term Debt (Continued)

Governmental Activities (Continued)

Bonds Payable (Continued)

Ordinance 2005-05-21 was passed by the City Council for issuance of Series 2005 General Obligation Bonds (Alternate Revenue Source) in an amount not to exceed \$2,000,000.

During the fiscal year ended April 30, 2006, the City issued \$1,800,000 of General Obligation Bonds (Alternate Revenue Source), Series 2005 for the Lynn Boulevard Project. These bonds are payable solely from local sales taxes. The bonds are due in annual installments due on May 1 each year with interest is at 2.85% to 3.95% due May 1 and November 1 each year through May 1, 2015.

Payments are due as follows:

<u>Year Ended</u> <u>April 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ -	\$ -
2012	180,000	37,800
2013	185,000	31,140
2014	195,000	24,110
2015	200,000	16,505
2016	<u>210,000</u>	<u>8,505</u>
Total	<u>\$970,000</u>	<u>\$118,060</u>

Leases Payable

The City entered into a capital lease agreement for \$274,940 for the purchase of a fire pumper truck, dated December 20, 2006. Interest was at 4.53%, with three payments of \$100,072 each due on December 20, 2007, 2008, and 2009. The lease was paid off during the year ended April 30, 2010.

The City entered into a capital lease agreement for \$148,958 for the purchase of a street sweeper, dated July 2, 2007. Interest was at 4.89%, with three payments of \$52,041 each due on July 2, 2007, 2008, and 2009. The lease was paid off during the year ended April 30, 2010.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 5. Long-Term Debt (Continued)

Governmental Activities (Continued)

Loans Payable

The City entered into a loan agreement for \$21,165 for the purchase of a mower dated July 25, 2008, with final payment due July 25, 2009. Interest is at 3.45%, with two payments of \$10,764 each due on July 25, 2008, and 2009. The loan was paid off during the year ended April 30, 2010.

The City entered into a loan agreement for \$56,408 for the purchase of a dump truck chassis dated October 10, 2008, with final payment due October 10, 2009. Interest is at 3.45%, with two payments of \$28,689 each due on October 10, 2008, and 2009. The loan was paid off during the year ended April 30, 2010.

The City entered into a loan agreement for \$110,000 for the purchase of an end loader dated October 27, 2008, with final payment due October 31, 2009. Interest is at 3.39%, with payments of \$55,000 and \$56,865 due on October 31, 2008, and 2009, respectively. The loan was paid off during the year ended April 30, 2010.

Redevelopment Agreements

The City entered into a redevelopment agreement on December 3, 2003 which included a note for \$100,000 for redevelopment improvements. The redevelopment note bears no interest and matures on January 1, 2023. As of April 30, 2010, the balance is \$68,000.

The City entered into a redevelopment agreement on December 12, 2002 which included a note for \$360,000 for redevelopment improvements. The redevelopment note bears no interest and matures on April 1, 2019. As of April 30, 2010, the balance is \$210,000.

Compensated Absences

The City accrues accumulated unpaid sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 5. Long-Term Debt (Continued)

Governmental Activities (Continued)

Compensated Absences (Continued)

Compensated absences at April 30, 2010 are as follows:

Governmental activities	<u>\$415,886</u>
Business-type activities	<u>\$ 40,514</u>

Net Pension Obligations

At April 30, 2010, the City had the following net pension obligations:

Police pension (asset)	\$ (75,149)
Fire pension	<u>90,901</u>
Total	<u>\$ 15,752</u>

Business-Type Activities

Loans Payable

The City entered into a loan agreement for \$708,184 with the Illinois Environmental Protection Agency dated June 30, 1991, with final payment due February 24, 2012. Interest is at 3.59%, with payments of \$25,173 due semi-annually. The loan is guaranteed by future revenues of the City. As of April 30, 2010, the balance is \$96,333.

The City entered into a loan agreement for \$2,117,933 with the Illinois Environmental Protection Agency dated July 1, 1997, with final payment due March 1, 2018. Interest is at 2.89%, with payments of \$70,966 due semi-annually. The loan is guaranteed by future revenues of the City. As of April 30, 2010, the balance is \$1,007,305.

The City entered into a loan agreement for \$826,930 with the Illinois Environmental Protection Agency dated October 7, 2005, with final payment due February 1, 2026. Interest is at 2.50%, with payments of \$26,920 due semi-annually. The loan is guaranteed by future revenues of the City. As of April 30, 2010, the balance is \$704,604.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 5. Long-Term Debt (Continued)

Debt Service Requirement to Maturity

<u>Fiscal Year Ending April 30</u>	<u>1991 EPA Loan</u>		<u>1997 EPA Loan</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$47,310	\$3,038	\$ 113,637	\$ 28,296
2012	49,023	1,324	116,944	24,988
2013	-	-	120,349	21,584
2014	-	-	123,852	18,081
2015	-	-	127,457	14,476
2016 - 2018	<u>-</u>	<u>-</u>	<u>405,066</u>	<u>20,731</u>
Total	<u>\$96,333</u>	<u>\$4,362</u>	<u>\$1,007,305</u>	<u>\$128,156</u>

<u>Fiscal Year Ending April 30</u>	<u>1996 EPA Loan</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 36,451	\$ 17,389
2012	37,367	16,472
2013	38,307	15,532
2014	39,271	14,568
2015	40,259	13,580
2016 - 2020	217,006	52,190
2021 - 2025	245,710	23,487
2026	<u>50,233</u>	<u>927</u>
Total	<u>\$704,604</u>	<u>\$154,145</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 6. Legal Debt Margin

The following schedule illustrates the legal debt margin of the City as of April 30, 2010:

Assessed valuation - 2009		<u>\$170,675,325</u>
Statutory debt limitation (8.625% of assessed limitation)		<u>\$14,720,747</u>
Total debt:		
Alternate revenue source bonds	\$3,190,000	
Tax increment revenue bonds	3,810,000	
Special service area bonds	408,507	
EPA loans payable	<u>1,808,242</u>	9,216,749
Less:		
Alternate revenue source bonds	3,190,000	
Tax increment revenue bonds	3,810,000	
Special service area bonds	408,507	
EPA loans payable	<u>1,808,242</u>	<u>9,216,749</u>
Total amount of debt applicable to debt limit		<u>-</u>
Legal debt margin		<u>\$14,720,747</u>

Note 7. Conduit Debt

During the fiscal year ended April 30, 2007, the City issued \$16,000,000 of hospital refunding and improvement bonds for CGH Medical Center, component unit of the City. These bonds are not a liability of the City and are paid by CGH Medical Center. At April 30, 2010, \$12,240,000 of this debt was outstanding.

During the fiscal year ended April 30, 2004, the City issued \$12,000,000 of hospital refunding and improvement bonds for CGH Medical Center, component unit of the City. These bonds are not a liability of the City and are paid by CGH Medical Center. At April 30, 2010, \$8,580,000 of this debt was outstanding.

During the fiscal year ended April 30, 2000, the City issued \$4,775,000 of revenue bonds for Hoosier Care, Inc.. These bonds are not a liability of the City and are paid by Hoosier Care, Inc.. At April 30, 2010, \$4,285,000 of this debt was outstanding.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 7. Conduit Debt (Continued)

During the fiscal year ended April 30, 2000, the City issued \$220,000 of taxable revenue bonds for Hoosier Care, Inc.. These bonds are not a liability of the City and are paid by Hoosier Care, Inc.. At April 30, 2010, \$160,000 of this debt was outstanding.

Note 8. Employee Retirement Systems

Plan Descriptions

The City's employees are covered by three separate retirement plans: policemen and firemen each have separate retirement plans and substantially all other City employees and participants are covered in the Illinois Municipal Retirement Fund (IMRF).

Illinois Municipal Retirement

The City's defined benefit pension plan for Regular employees provides retirement and disability benefits, post retirement increases, and death benefits to plan members and beneficiaries. The City plan is affiliated with the Illinois Municipal Retirement Fund (IMRF), an agent multi-employer plan. Benefit provisions are established by statute and may only be changed by the General Assembly of the State of Illinois. IMRF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained on-line at www.imrf.org.

As set by statute, the City's Regular plan members are required to contribute 4.50% of their annual covered salary. The statute requires employers to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The employer contribution rate for calendar year 2009 was 1.51% of annual covered payroll. The City also contributes for disability benefits, death benefits and supplemental retirement benefits, all of which are pooled at the IMRF level. Contribution rates for disability and death benefits are set by the IMRF Board of Trustees, while the supplemental retirement benefits rate is set by statute.

For fiscal year ending December 31, 2009 the City's annual pension cost of \$40,473 for the Regular plan was equal to the City's required and actual contributions.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 8. Employee Retirement Systems (Continued)

Illinois Municipal Retirement (Continued)

Three-Year Trend Information for the Regular Plan

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent of APC Contributed</u>	<u>Net Pension Obligation</u>
December 31, 2009	\$ 40,473	100%	\$ -
December 31, 2008	50,805	100	-
December 31, 2007	138,833	100	-

The required contribution for 2009 was determined as part of the December 31, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at December 31, 2007, included (a) 7.5% investment rate of return (net of administrative and direct investment expenses), (b) projected salary increases of 4.00% a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4% to 10% per year depending on age and service, attributable to seniority/merit, and d) post-retirement benefit increases of 3% annually. The actuarial value of the City's Regular plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period with a 15% corridor between the actuarial and market value of assets. The City's Regular plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at the December 31, 2007, valuation was 23 years.

As of December 31, 2009, the most recent actuarial valuation date, the Regular plan was 85.77% funded. The actuarial accrued liability for benefits was \$9,747,751 and the actuarial value of assets was \$8,360,888, resulting in an underfunded actuarial accrued liability (UAAL) of \$1,386,863. The covered payroll (annual payroll of active employees covered by the plan) was \$2,680,309 and the ratio of the UAAL to the covered payroll was 52%. In conjunction with the December 2009 actuarial valuation the market value of investments was determined using techniques that spread the effect of short-term volatility in the market value of investments over a 5-year period with a 20% corridor between the actuarial and market value of assets. In 2010, the unfunded actuarial accrued liability is being amortized on a level percentage of projected payroll on an open 30-year basis.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2009

Note 8. Employee Retirement Systems (Continued)

Police Pension

Police sworn personnel are covered by the Police Pension Plan which is a defined benefit single-employer pension plan that provides retirement benefits as well as death benefits and disability benefits. Although this is a single-employer pension plan, the defined benefits and employee contribution levels are governed by Illinois Compiled Statutes (Chapter 40 - Article 5/3) and may be amended only by the Illinois legislature. At April 30, 2010, the plan membership consisted of the following.

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	21
Current employees:	
Vested	19
Nonvested	<u>11</u>
Total	<u>51</u>

Employees attaining the age 50 or more with 20 or more years of creditable service are entitled to receive an annual retirement benefit of one-half of the salary attached to the rank held on the last day of service or for one year prior to the last day, whichever is greater. The pension shall be increased by 2.0% of such salary for each additional year of service over 20 years up to 30 years, and 1% of such salary for each additional year of service over 30 years, to a maximum of 75% of such salary. Employees with at least 8 years but less than 20 years of credited service may retire at or after age 60 and receive a reduced benefit.

The monthly pension of a police officer who retired with 20 or more years of service after January 1, 1977 shall be increased annually, following the first anniversary date of retirement and be paid upon reaching the age of at least 55 years, by 3% of the original pension and 3% simple interest annually thereafter.

Covered employees are required to contribute 9.91% of their base salary to the Police Pension Plan. If an employee leaves covered employment with less than 20 years of service, accumulated employee contributions may be refunded without accumulated interest. The City is required to contribute the remaining amounts necessary to finance the plan as actuarially determined by an enrolled actuary. The current rate is 27.68% of covered payroll. Effective July 1, 1993 the City's contributions must accumulate to the point where the past service cost for the Police Pension Plan is fully funded by the year 2033.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 8. Employee Retirement Systems (Continued)

Firefighters' Pension

Fire sworn personnel are covered by the Firefighters' Pension Plan which is a defined benefit single-employer pension plan that provides retirement benefits as well as death benefits and disability benefits. Although this is a single-employer pension plan, the defined benefits as well as the employee and employer contributions levels are mandated by Illinois Compiled Statutes (Chapter 40 - Article 5/4) and may be amended only by the Illinois legislature. At April 30, 2009, the plan membership consisted of the following.

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	19
Current employees:	
Vested	16
Nonvested	<u>7</u>
Total	<u>42</u>

Employees attaining the age of 50 or more with 20 or more years of creditable service are entitled to receive a monthly retirement benefit of one-half of the monthly salary attached to the rank held in the fire service at the date of retirement. The monthly pension shall be increased by one-twelfth of 2.5% of such monthly salary for each additional month over 20 years of service through 30 years of service, to a maximum of 75% of such monthly salary. Employees with at least 10 years but less than 20 years of credited service may retire at or after age 60 and receive a reduced retirement benefit.

The monthly pension of a firefighter who retired with 20 or more years of service after January 1, 1986 shall be increased annually, following the first anniversary date of retirement and paid upon reaching at least the age 55, by 3% of the original pension and 3% annually thereafter.

Covered employees are required to contribute 9.455% of their base salary to the Firefighters' Pension Plan. If an employee leaves covered employment with less than 20 years of service, accumulated employee contributions may be refunded without interest. The City is required to contribute the remaining amounts necessary to finance the plan as actuarially determined by an enrolled actuary. The current rate is 35.91% of covered payroll. Effective July 1, 1993 the City's contributions must accumulate to the point where the past service cost for the Firefighters' Pension Plan is fully funded by the year 2033.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 8. Employee Retirement Systems (Continued)

Funding Policy and Annual Pension Cost

The City's annual pension cost and net pension obligation (asset) for each plan is as follows:

	<u>Police Pension Plan</u>	<u>Firefighters' Pension Plan</u>
Annual required contribution	\$ 358,072	\$ 365,338
Interest on net pension obligation	(8,253)	(1,420)
Adjustment to annual required contribution	<u>5,578</u>	<u>960</u>
Annual pension cost	355,397	364,878
Contributions made	<u>(324,050)</u>	<u>(255,652)</u>
Change in net pension obligation (asset)	31,347	(109,226)
Net pension asset, beginning of year	<u>(106,496)</u>	<u>(18,325)</u>
Net pension obligation (asset), end of year	<u><u>\$ (75,149)</u></u>	<u><u>\$ (90,901)</u></u>

The date of the actuarial valuation and actuarial method and assumptions used are as follows:

Actuarial valuation date	May 1, 2009
Actuarial cost method	Entry Age Normal Cost
Actuarial value of assets	3-year Smoothed Market
Amortization method	Level Percentage of Payroll Closed
Remaining amortization period	28 Years, 0 Months
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	TCG Basic Salary Table providing graded increases from 1.12% to 4.86% varying by age, plus the inflation rate shown below
Inflation factor	2.50%
Cost of living increases	3.00%

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 8. Employee Retirement Systems (Continued)

Funding Policy and Annual Pension Cost

Trend Information

<u>Actuarial Valuation Date</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
<u>Police Pension Fund</u>			
04/30/10	\$355,397	91.18%	\$(75,149)
04/30/09	290,597	96.43	(106,496)
04/30/08	214,040	137.46	(116,873)
<u>Firefighters' Pension Fund</u>			
04/30/10	\$364,478	70.14%	\$ 90,901
04/30/09	228,623	105.04	(18,325)
04/30/08	192,141	112.28	(6,804)

Note 9. Other Postemployment Benefits

The City implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective May 1, 2009. This statement requires the costs of postemployment benefits other than pension benefits to be recognized over a period that approximates an employee's years of service. Implementation of this statement resulted in recording a liability of \$1,554,268 as of April 30, 2010. Additional disclosures required by this statement are included below.

Plan Description

In addition to providing the pension benefits described in Note 8, the City provides postemployment health care benefits (OPEB) for retired employees through a single-employer health care plan that provides medical, prescription drug, and dental benefits to all active and retired employees and their eligible dependents. Retiree coverage begins at IMRF retirement age of at least 55 and continues until the retiree is Medicare eligible.

The benefits, benefit levels, employee contributions, and employer contributions are governed by the City and can be amended by the City through its personnel manual and union contracts. The plan is not accounted for as a trust fund, as an irrevocable trust has not been established to account for the plan. The plan does not issue a stand-alone

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 9. Other Postemployment Benefits (Continued)

Plan Description (Continued)

financial report. The activity of the plan is reported in the City's governmental and business-type activities.

Membership

Membership in the OPEB comprised the following at May 1, 2009:

Retirees and beneficiaries currently receiving benefits	33
Terminated employees entitled to benefits but not yet receiving them	-
Active employees	<u>107</u>
Total	<u>140</u>
Participating employers	<u>1</u>

Funding Policy

The City is not required to and currently does not advance fund the cost of benefits that will become due and payable in the future. Active employees do not contribute to the plan until retirement. Retirees contribute 100% of the retiree and/or spouse rate.

Annual OPEB Costs and Net OPEB Obligations

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC is the periodic required contribution to fund the postemployment health care benefits of both active and retired employees, calculated in accordance with GASB Statement No. 45. It includes both the value of benefits earned during the year (normal cost) and an amortization of the unfunded actuarial accrued liability. Although there is no requirement to make contributions equal to the ARC, it serves as a starting point for determining the annual OPEB cost.

The annual OPEB cost is the amount the City charges as the cost of the postemployment health care benefits each fiscal year. If there is no net OPEB obligation, then the annual OPEB cost is equal to the ARC. However, if there is a net OPEB obligation, the annual OPEB cost reflects adjustment for interest on the net OPEB obligation. The City's annual OPEB cost, the percentage of annual OPEB cost

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 9. Other Postemployment Benefits (Continued)

Annual OPEB Costs and Net OPEB Obligations (Continued)

contributed to the plan, and the net OPEB obligation for the year ended April 30, 2010 was as follows:

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual</u> <u>OPEB</u> <u>Cost</u>	<u>Employer</u> <u>Contributions</u>	<u>Percentage</u> <u>of Annual</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
April 30, 2010	\$1,890,730	\$336,462	18%	\$1,554,268

The net OPEB obligation as of April 30, 2010 was calculated as follows:

Annual required contribution	\$1,890,730
Interest on net pension obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost	1,890,730
Contributions made	<u>(336,462)</u>
Change in net OPEB obligation	1,554,268
Net OPEB obligation, beginning of year	<u>-</u>
Net OPEB obligation, end of year	<u><u>\$1,554,268</u></u>

The net OPEB obligation is the difference between the annual OPEB cost and the City's contributions to the plan since the implementation date.

Funded Status and Funding Progress. The funded status of the plan as of April 30, 2010 was as follows:

Actuarial accrued liability (AAL)	\$15,977,406
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	15,977,406
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 5,609,260
UAAL as a percentage of covered payroll	284.84%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 9. Other Postemployment Benefits (Continued)

Annual OPEB Costs and Net OPEB Obligations (Continued)

health care cost trend. Amounts determined regarding the funded status of the plan and the ARCs of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the AALs for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The unfunded actuarial accrued liability is amortized as a level dollar amount over thirty years, resulting in an amortization of \$815,155 for the twelve-month period.

In the April 30, 2010 actuarial valuation, the projected unit credit method was used.

Discount Rate. The discount rate as of April 30, 2010 is 3.00%. The discount rate is determined by the plan sponsor based on the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits.

Actuarial Cost Method. The method used to calculate normal cost and actuarial accrued liability is the projected unit credit cost method. Under this method, the present value of projected benefits is estimated at each decrement age, taking into account the value of future increases in medical claims. The total present value of projected benefits is the sum of the present values for each decrement age.

The actuarial accrued liability is calculated by prorating the present value of projected benefits by service at the valuation date over service projected to the date of decrement.

The normal cost is the present value of projected benefits attributable to the valuation year.

The actuarial value of assets was not determined as the City has not advance funded its obligation.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 10. Interfund Balances

Operating Transfers

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Sewer Fund	\$ 25,000	\$ -
CBD Tax Increment Allocation Fund	-	16,000
Nonmajor Governmental	<u>-</u>	<u>225,000</u>
	<u>25,000</u>	<u>241,000</u>
CBD Tax Increment Allocation Fund:		
General Fund	<u>16,000</u>	<u>-</u>
Sewer Fund:		
General Fund	<u>-</u>	<u>25,000</u>
Nonmajor Governmental:		
General Fund	<u>225,000</u>	<u>-</u>
Total operating transfers	<u>\$266,000</u>	<u>\$266,000</u>

Transfers are used to move unrestricted revenues collected in the funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Due From/Due To Other Funds

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund:		
CBD Tax Increment Allocation Fund	\$ 450,000	\$ -
Rock River Tax Increment Allocation Fund	1,112,321	-
Nonmajor Governmental	<u>65,530</u>	<u>-</u>
	<u>1,627,851</u>	<u>-</u>
Rock River Tax Increment Allocation Fund:		
General Fund	-	1,112,321
Nonmajor Governmental	<u>-</u>	<u>800,071</u>
	<u>-</u>	<u>1,912,392</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 10. Interfund Balances (Continued)

Due From/Due To Other Funds (Continued)

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
CBD Tax Increment Allocation Fund:		
General Fund	-	450,000
Nonmajor Governmental	<u>-</u>	<u>402,500</u>
	<u>-</u>	<u>852,500</u>
Sewer Fund:		
Solid Waste Fund	<u>4,697</u>	<u>-</u>
Solid Waste Fund:		
Sewer Fund	<u>-</u>	<u>4,697</u>
Nonmajor Governmental:		
General Fund	-	65,530
CBD Tax Increment Allocation Fund	402,500	-
Rock River Tax Increment Allocation Fund	<u>800,071</u>	<u>-</u>
	<u>834,381</u>	<u>195,949</u>
	<u>1,202,571</u>	<u>65,530</u>
Total due from/due to other funds	<u><u>\$2,835,119</u></u>	<u><u>\$2,835,119</u></u>

Interfund balances resulted from the writing of checks within the common checking account on behalf of funds that do not have adequate balance to cover those checks. For investment purposes interfund loans are made to cover the negative balances.

Other interfund loans existing at April 30, 2010, and their purpose were as follows:

The CBD Tax Increment Allocation Fund owed the General Fund \$450,000 for money loaned to cover expenses for the downtown TIF.

The CBD Tax Increment Allocation Fund owed the Infrastructure Fund \$402,500 for money loaned to cover expenses for the downtown TIF.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 11. Other Individual Fund Disclosures

The following funds had expenditures in excess of budget for the year ended April 30, 2010:

	<u>Expenditures</u>	<u>Budget</u>
General Fund	\$9,874,978	\$9,774,648
Rock River Tax Increment Allocation Fund	683,797	635,432
Industrial Development Fund	113,623	113,312
Municipal Coliseum Fund	151,544	148,559
Foreign Fire Insurance Fund	50,450	50,449
Lincolnway-Lynn Tax Increment Allocation Fund	37,063	-
Lynn Boulevard Project Fund	218,606	218,292
Police Pension Fund	754,252	748,595

The following funds had deficit fund balances or deficit retained earnings at April 30, 2010:

	<u>Deficit</u>
Rock River Tax Increment Allocation Fund	\$940,196
CBD Tax Increment Allocation Fund	461,884
Lincolnway-Lynn Tax Increment Allocation Fund	37,063

Note 12. Component Unit - CGH Medical Center

The following is a summary of certain accounting policies and note disclosures for the CGH Medical Center. Complete financial statements and note disclosures are available in the separately issued CGH Medical Center annual report for the fiscal year ended April 30, 2010.

Basis of Accounting

The Medical Center uses the economic resources measurement focus and the accrual method of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Cash and Cash Equivalents

Cash and cash equivalents include all liquid investments with maturities of three months or less when purchased.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 12. Component Unit - CGH Medical Center (Continued)

Accounts Receivable and Credit Policies

Accounts receivable are uncollateralized patient and third party payor obligations which generally require payment within thirty days from invoice date.

Statements are sent out approximately every thirty days. On the fourth statement the account is considered delinquent and a collection letter is sent. The account is turned over to collection at approximately one hundred twenty days. At the time they are turned over to collection, they are also written off as uncollectible.

Payments of accounts receivable are applied to the specific invoices identified on the customers remittance advice or, if unspecified, research is done to identify invoices paid, if invoices cannot be identified, the payment goes against the earliest invoice outstanding.

The carrying amount of accounts receivable is reduced by valuation allowances that reflect management's best estimate of amounts that will not be collected. Management uses a system for estimating third party contractual allowances and losses for uncollectible accounts, whereby certain percentages of patient revenue for each of these allowances is recorded on a monthly basis as an offset to revenue and receivables. The percentages used by management are based off of historical trends with final adjustments made when cost reports are filed. Periodically management reviews outstanding accounts for creditworthiness.

Inventories

General stores, pharmacy and other inventories are carried at lower of cost or market, cost being determined on the "average" basis of accounting.

Investments and Investment Income

State statutes authorize the Medical Center to invest in obligations of the United States of America or its agencies (or guaranteed by the full faith and credit of the same) and certain time deposits and short-term obligations as defined in the Public Fund Investment Act.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 12. Component Unit - CGH Medical Center (Continued)

Investments and Investment Income (Continued)

Investments in debt and equity securities are carried at fair value which is determined using selected bases. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating income when earned.

Investments are regularly evaluated for impairment. The Medical Center considers factors affecting the investee, factors affecting the industry the investee operates within, and general debt and equity market trends. The Medical Center considers the length of time an investment's fair value has been below carrying value, the near term prospects for recovery to carrying value, and the intent and ability to hold the investment until maturity or market recovery is realized.

Assets Whose Use is Limited

Assets whose use is limited includes assets that are externally restricted under bond indenture agreements to make debt service payments, maintain sinking funds, and maintain reserve funds.

Compensated Absences

At the Medical Center, benefits given for vacation, holidays, personal days, funeral days, and sick days are combined into one program called Earned Time Off (ETO). Employees' compensated absences are accrued when earned. The Medical Center's employees earn ETO days at varying rates depending on years of service. Employees may accumulate ETO hours. All ETO hours accrued in excess of 480 hours (60 days) will be bought back from the employee in July of each year. The obligation and expenditure incurred during the year are recorded as other current liabilities in the statement of net assets, and as a component of employee benefits in the statement of activities.

Noncurrent Liabilities

Noncurrent liabilities include principal amounts of revenue bonds payable and obligations under capital leases with contractual maturities greater than one year.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 12. Component Unit - CGH Medical Center (Continued)

Net Assets

The Medical Center's net assets are classified as follows:

- Invested in capital assets net of related debt - This represents the Medical Center's total investment in capital assets, net of accumulated depreciation and related debt.
- Restricted net assets - Consists of net assets with constraints placed on the use by the board or external groups such as creditors or contributors.
- Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets".

Risk Management

The Medical Center is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; medical malpractice; employee injuries and illnesses; natural disasters and employee health, dental, and accident benefits.

Concentration of Credit Risk

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

Medicare	35%
Medicaid	16
Blue Cross	12
Other third-party payors	29
Patients	<u>8</u>
Total	<u>100%</u>

Classification of Revenues and Expenses

The Medical Center has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues - Operating revenues include activities that have the characteristics of exchange transactions, such as patient revenues. The statement of activities includes an intermediate measure of operations, operating income, that represents the activity of the ongoing operations of the Medical Center. Other income and expense, excluded from

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 12. Component Unit - CGH Medical Center (Continued)

Classification of Revenues and Expenses (Continued)

operating income, consists primarily of nonrecurring transactions and transactions that are outside of the Medical Center's primary activities.

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, such as investment income and contributions.

Operating expenses - Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Medical Center has agreements with third party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs and discounted charges. Following is a summary of the payment arrangements with major third party payors.

Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Beginning in 2002, the Medical Center claimed Medicare payments based on an interpretation of certain "disproportionate share" rules. The Medical Center has applied for additional reimbursement under the "disproportionate share" rules for all years from 2002 forward. The Medical Center is also classified as a Medicare Dependent Hospital. The Medical Center has included approximately \$3,377,744 of the claimed excess in Net Patient Service Revenue for the year ended April 30, 2010. The Medical Center's

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 12. Component Unit - CGH Medical Center (Continued)

Net Patient Service Revenue (Continued)

Medicare (Continued)

classification of patients under the Medicare program and the appropriateness of their admission are subject to independent review by a peer review organization. The Medical Center's Medicare cost reports have been final settled by the Medicare fiscal intermediary through April 30, 2007.

Medicaid

Inpatient acute care services and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. Both inpatient and outpatient rates are not subject to retroactive adjustment.

Blue Cross

Services rendered to Blue Cross subscribers are reimbursed under a cost reimbursement methodology. The Medical Center is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by Blue Cross. The Medical Center's Blue Cross cost reports have been audited through April 30, 2009.

Other

The Medical Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge and discounts from established charges.

Revenue from Medicare and Medicaid programs accounted for approximately 48% and 16%, respectively, of the Medical Center's gross patient service revenue for the year ended April 30, 2010. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates of contractual allowances will change by a material amount in the near term.

In December 2008, the Federal Centers for Medicare & Medicaid Services (CMS) approved State of Illinois (State) legislation for a Medicaid Hospital Assessment Program (Program). Under the Program, the Medical Center received additional Medicaid

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 12. Component Unit - CGH Medical Center (Continued)

Net Patient Service Revenue (Continued)

Other (Continued)

reimbursement from the State. The Program has been extended through June 30, 2013. Cash payments of \$4,404,432 were received and were included in net patient revenue for the year ended April 30, 2010.

Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Component Units

Rock River Health, Inc. and CGH Health Foundation, Inc., are blended component units of CGH Medical Center. These organizations have been consolidated in the presentation of CGH Medical Center as a component unit of the City.

Income Taxes

CGH Medical Center is considered a governmental entity and is exempt from tax.

Rock River Health, Inc. and CGH Health Foundation, Inc., component units of CGH Medical Center, are not-for-profit corporations and have been recognized as tax exempt pursuant to Sec. 501(c)(3) of the Internal Revenue Code.

Capital Assets

Land is valued at appraisal value at August, 1957, with subsequent additions at cost. Building and equipment values have been restated in accordance with a cost appraisal prepared by appraisers and valuation consultants. Valuations shown are estimated original cost as determined by appraisers at April 30, 1969, with subsequent additions at cost.

Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Contributed assets are recorded at their estimated fair value at the time of their donation. Other costs incurred for repairs and maintenance are expensed as incurred.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 12. Component Unit - CGH Medical Center (Continued)

Capital Assets (Continued)

Assets are depreciated using the straight-line method over their estimated useful lives. Useful lives range from three to forty years.

Unconsolidated Investees

The Medical Center has equity in two joint ventures. The net equity accounts are adjusted for the Medical Center's proportionate share of the undistributed earnings or losses. At April 30, 2010, the net equity in unconsolidated investees is \$4,323,127.

Deposits and Investments

At year end, the carrying amount of the Medical Center's cash and deposits was \$8,960,980 and the bank balances totaled \$9,489,527. Cash on hand was \$2,285.

As of April 30, 2010, the Medical Center had the following investments:

	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>10 or more</u>
Certificates of Deposit	\$13,530,651	\$ 6,032,578	\$ 7,498,073	\$ -	\$ -
Mutual Funds	6,428,610	6,428,610	-	-	-
Federated Govt.	2,166,769	2,166,769	-	-	-
FNMA	4,311,248	650,398	3,587,525	28,007	45,318
U.S. Treasuries	126,011	126,011	-	-	-
FHLB	1,392,348	606,564	785,784	-	-
GNMA	507,123	-	-	-	507,123
FHLMC	4,003,489	152,625	3,701,301	-	149,563
FFCB	525,940	-	525,940	-	-
Municipal Bonds	<u>2,077,373</u>	<u>-</u>	<u>2,077,373</u>	<u>-</u>	<u>-</u>
Total	<u>\$27,435,395</u>	<u>\$16,163,555</u>	<u>\$18,175,996</u>	<u>\$28,007</u>	<u>\$702,004</u>

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Medical Center limits funds that are not directly matched with anticipated cash flow requirements to maturities primarily less than a five-year average weighted life.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 12. Component Unit - CGH Medical Center (Continued)

Credit Risk

The Medical Center's investment policy is to apply the prudent person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to conform with legal requirements and state statutes, seek reasonable income, preserve capital, maintain liquidity, and in general, avoid speculative instruments.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Medical Center's deposits may not be returned to it. The Medical Center's investment policy allows that funds on deposit with one institution shall not represent more than 50% of the Medical Center's invested funds at any one time. Additionally, the Medical Center allows that funds on deposit in excess of FDIC limits must be secured by some form of collateral held by the institutions in the name of the Medical Center.

Revenue Bonds Payable

At April 30, 2010, bonds payable consisted of the following issues:

2003 Municipal Program Revenue Bonds, dated October 15, 2003, due in annual installments through 2024, bearing interest at variable rates ranging from 1.20% to 4.95%. The interest is payable semiannually.

2006 Municipal Program Revenue Bonds, dated September 15, 2006, due in annual installments through 2023, bearing interest at variable rates ranging from 3.95% to 4.60%. The interest is payable semiannually.

Transactions for the year ended April 30, 2010, are summarized as follows:

	<u>Balance</u> <u>May 1, 2009</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>April 30, 2010</u>
2003 Municipal Program Revenue Bonds	\$ 9,580,000	\$ -	\$ 490,000	\$ 8,580,000
2006 Municipal Program Revenue Bonds	12,935,000	-	695,000	12,240,000
Unamortized bond discount	<u>407,186</u>	<u>-</u>	<u>28,677</u>	<u>378,509</u>
Total revenue bonds payable	<u>\$21,597,814</u>	<u>\$ -</u>	<u>\$1,156,323</u>	<u>\$20,441,491</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 12. Component Unit - CGH Medical Center (Continued)

Revenue Bonds Payable (Continued)

Annual requirements of interest and principal payments to retire debt obligations are due on May 1st each year. Interest only payments are due on October 1st each year. The debt obligations due on May 1, 2010 were paid by April 30, 2010. Annual requirements to retire debt obligations are as follows:

<u>Year Ending April 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ -	\$ 466,153	\$ 466,153
2012	1,230,000	907,941	2,137,941
2013	1,275,000	857,465	2,132,465
2014	1,330,000	803,499	2,133,499
2015	1,385,000	746,155	2,131,155
2016 - 2020	7,890,000	2,740,750	10,630,750
2021 - 2024	<u>7,710,000</u>	<u>747,712</u>	<u>8,457,712</u>
Total	<u>\$20,820,000</u>	<u>\$7,269,675</u>	<u>\$28,089,675</u>

Capital Assets

Capital asset activity for the year ended April 30, 2010 was as follows:

	<u>Balance at May 1, 2009</u>	<u>Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance at April 30, 2010</u>
Medical Center				
Land	\$ 2,395,138	\$ -	\$ -	\$ 2,395,138
Land improvements	1,674,026	113,898	55,981	1,731,943
Buildings	53,900,827	184,963	704,359	53,831,431
Rented buildings	20,016,283	1,154,979	-	21,171,262
Building service equipment	9,599,368	-	160,483	9,438,885
Moveable equipment	49,067,459	6,278,287	2,531,225	52,814,521
Construction in progress	<u>565,149</u>	<u>1,954,655</u>	<u>2,005,157</u>	<u>514,647</u>
Total cost	<u>137,218,250</u>	<u>9,686,782</u>	<u>5,457,205</u>	<u>141,447,827</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 12. Component Unit - CGH Medical Center (Continued)

Capital Assets (Continued)

	<u>Balance at May 1, 2009</u>	<u>Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance at April 30, 2010</u>
Less accumulated depreciation for:				
Land improvements	1,288,829	77,386	55,855	1,310,360
Buildings	22,128,250	2,449,361	700,988	23,876,623
Rented buildings	6,320,971	1,002,928	-	7,323,899
Building service equipment	8,727,224	198,496	158,999	8,766,721
Moveable equipment	<u>30,315,253</u>	<u>5,508,141</u>	<u>2,399,834</u>	<u>33,423,560</u>
Total accumulated depreciation	<u>68,780,527</u>	<u>9,236,312</u>	<u>3,315,676</u>	<u>74,701,163</u>
Total Medical Center capital assets, net	<u>\$ 68,437,723</u>	<u>\$ 450,470</u>	<u>\$2,141,529</u>	<u>\$ 66,746,664</u>

Self Insurance Plan

The Medical Center adopted a "self-insured" employee medical health plan effective November 1, 1984. A co-insurance policy is maintained covering plan participants for all costs in excess of \$250,000 per person annually. The plan year runs from January 1 to December 31. The Medical Center estimates the amount of incurred but unpaid claims at April 30, 2010 to be approximately \$1,094,033, which is included in accrued liabilities on the Statement of Net Assets.

Malpractice Insurance

During the current year, the Medical Center was insured for professional and general liability insurance coverage on a claims-made basis through the Illinois Providers' Trust (IPT). A claims-made policy covers the Medical Center for only those claims reported to IPT within reporting periods as defined in the policy. The estimated liability accrued for unpaid losses and incurred but not reported claims at year-end was \$231,100. IPT is a risk pooling arrangement among tax-exempt, not-for-profit entities designed to protect against the risk of financial loss due to the imposition of legal liability, which was established under the Illinois Religious and Charitable Risk Pooling Trust Act. Funding is based on the Medical Center's experience and future premiums can be adjusted for favorable or unfavorable retrospective experience.

Prior to joining IPT, the Medical Center purchased professional and general liability insurance to cover medical malpractice claims. The policy is a claims made policy that has a retroactive date of May 1, 1979. There are known claims and incidents that may

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2010

Note 12. Component Unit - CGH Medical Center (Continued)

Malpractice Insurance (Continued)

result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. The Medical Center contracted an independent actuary to estimate the ultimate costs of the settlement of such claims. Accrued malpractice losses in management's opinion provide an adequate reserve for loss contingencies.

The Medical Center purchases separate professional liability insurance to cover medical malpractice claims for specific employed physicians. The policies are claims made policies that have retroactive dates of May 1, 1979. There are known claims from services provided to patients. The claims appear to be covered claims, and are in various stages of the discovery process and investigation.

Note 13. Change in Amortization Method for Police and Fire Pension Actuarial Valuations

Effective May 1, 2009, the City changed its amortization method for Police and Fire Pension actuarial valuations from the Level Dollar Closed method to the Level Percentage of Payroll Closed method. The City made this change to get a better estimate of the annual required contribution for the Police and Fire Pension Funds. This change had the effect of reducing the Annual Required Contributions for the Police and Fire Pension Funds by \$111,855 and \$102,488, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF STERLING, ILLINOIS
SCHEDULE OF FUNDING PROGRESS
April 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll {(b-a)/c}
<u>Police Pension Fund</u>						
4/30/10	\$ 11,113,057	\$ 14,499,049	\$ 3,385,992	76.65%	\$ 1,616,491	209.47%
4/30/09	11,967,931	13,519,812	1,551,881	88.52%	1,610,367	96.37%
4/30/08	11,537,623	12,432,905	895,282	92.80%	1,509,307	59.32%
<u>Firemen Pension Fund</u>						
4/30/10	\$ 11,047,973	\$ 14,379,011	\$ 3,331,038	76.83%	\$ 1,318,492	252.64%
4/30/09	12,102,168	12,965,609	863,441	93.34%	1,250,120	69.07%
4/30/08	11,603,090	12,217,303	614,213	94.97%	1,219,916	50.35%
<u>IMRF</u>						
12/31/09	\$ 8,360,888	\$ 9,747,751	\$ 1,386,863	85.77%	\$ 2,680,309	51.74%
12/31/08	8,254,157	9,102,244	848,087	90.68%	2,490,445	34.05%
12/31/07	10,742,317	8,093,857	(2,648,460)	132.72%	2,435,666	0.00%
<u>Other Postemployment Benefits</u>						
4/30/10	\$ -	\$ 15,977,406	\$ 15,977,406	0.00%	\$ 5,609,260	284.84%
4/30/09	-	-	-	0.00%	-	0.00%
4/30/08	-	-	-	0.00%	-	0.00%

On a market value basis, the actuarial value of assets as of December 31, 2009 is \$8,014,011. On a market basis, the funded ratio would be 82.21%.

CITY OF STERLING, ILLINOIS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Year Ended April 30, 2010

	Appropriation			Variance with
	Original	Final	Actual	Final budget
REVENUES				
Property taxes:				
Corporate	\$ 390,876	\$ 389,339	\$ 389,339	\$ -
Fire protection	233,744	233,606	233,606	-
Police protection	233,744	233,606	233,606	-
Liability insurance	254,925	256,230	256,230	-
Workers' compensation	86,625	87,057	87,057	-
Road and bridge	106,500	110,103	110,103	-
Police pension	299,970	301,350	301,350	-
Fire pension	225,720	226,752	226,752	-
Total property taxes	1,832,104	1,838,043	1,838,043	-
Sales tax	4,474,903	4,178,573	4,285,994	107,421
Intergovernmental revenue:				
State income tax	1,441,070	1,002,633	1,202,870	200,237
State replacement tax	273,084	275,209	261,990	(13,219)
Township replacement tax	17,575	16,837	18,913	2,076
Mini-Grant Alcohol Program Grant	-	-	7,228	7,228
Blackhawk Area Task Force	51,000	64,000	52,899	(11,101)
Fire Department Wal-Mart Grant	2,000	1,000	-	(1,000)
Tobacco Grant	2,500	1,980	1,980	-
Bulletproof Vest Grant	500	-	-	-
Grant Writer Grant	-	23,333	15,000	(8,333)
Other grants	-	36,229	13,438	(22,791)
Fire protection revenue	223,400	194,746	194,746	-
Total intergovernmental revenue	2,011,129	1,615,967	1,769,064	153,097
Licenses and permits:				
Franchise licenses	595,000	588,833	581,372	(7,461)
Liquor licenses	58,000	66,584	62,751	(3,833)
Building permits	15,000	45,000	24,717	(20,283)
Other	72,700	63,505	50,786	(12,719)
Total licenses and permits	740,700	763,922	719,626	(44,296)
Fines and penalties	211,300	177,731	192,309	14,578
Charges for services	62,500	57,500	55,067	(2,433)
Investment income:				
Interest income	240,100	229,041	209,437	(19,604)
Unrealized loss	-	-	15,986	15,986
Total investment income	240,100	229,041	225,423	(3,618)
Donations	238,750	197,300	274,200	76,900
Other	461,710	407,716	407,279	(437)
Total revenues	\$ 10,273,196	\$ 9,465,793	9,767,005	\$ 301,212

CITY OF STERLING, ILLINOIS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Year Ended April 30, 2010

	<u>Appropriation</u>			<u>Variance</u> <u>with</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final budget</u>
EXPENDITURES				
General government:				
Office of the Mayor and City Council	\$ 41,065	\$ 30,520	\$ 29,740	\$ 780
Office of City Clerk	114,281	114,992	112,525	2,467
Policy and Administration	318,976	256,794	252,935	3,859
Total general government	474,322	402,306	395,200	7,106
Public safety:				
Police Department				
Police Services Division	1,495,384	1,418,330	1,481,257	(62,927)
Administrative Services Division	311,227	317,855	310,033	7,822
Investigative Division	278,677	250,107	205,636	44,471
Support Services Division	610,139	586,102	575,191	10,911
Blackhawk Area Task Force Grant	51,000	64,000	63,722	278
Fire Department				
Fire Services Division	1,190,843	1,283,931	1,276,381	7,550
Administrative Services Division	140,040	156,881	159,694	(2,813)
Fire Prevention and Training Division	41,820	41,178	40,020	1,158
Total public safety	4,119,130	4,118,384	4,111,934	6,450
Public works and transportation:				
Administrative Division	160,924	153,714	161,172	(7,458)
Street Division	1,451,847	1,426,097	1,470,397	(44,300)
Traffic Division	51,105	49,119	48,542	577
Stormwater Division	90,850	-	-	-
City Shop	45,963	45,356	44,057	1,299
City Parks	73,115	104,072	104,174	(102)
Total public works and transportation	1,873,804	1,778,358	1,828,342	(49,984)
Community development:				
Office of Community Development	341,156	320,761	310,913	9,848
Other				
Contribution to police pension plan	299,970	301,350	301,350	-
Contribution to fire pension plan	225,720	226,752	226,752	-
Sterling Planning Commission	41,700	57,845	47,889	9,956
Police and Fire Commission	18,590	8,865	8,209	656
Non-departmental	1,926,058	1,825,118	1,900,331	(75,213)
Total other	2,512,038	2,419,930	2,484,531	(64,601)
Debt service:				
Principal	254,470	238,470	238,470	-
Interest	9,961	10,004	10,004	-
Total debt service	264,431	248,474	248,474	-
Capital outlay	469,387	486,435	495,584	(9,149)
Total expenditures	\$ 10,054,268	\$ 9,774,648	9,874,978	\$ (100,330)
Deficiency of revenues over expenditures			(107,973)	

CITY OF STERLING, ILLINOIS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Year Ended April 30, 2010

	<u>Appropriation</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>with</u>
				<u>Final budget</u>
OTHER FINANCING SOURCES (USES)				
Sale of property	\$ 3,000	\$ 1,525	\$ 1,571	\$ 46
Operating transfers in	25,000	25,000	25,000	-
Operating transfers out	(241,000)	(241,000)	(241,000)	-
	<u>\$ (213,000)</u>	<u>\$ (214,475)</u>	<u>(214,429)</u>	<u>\$ 46</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses			(322,402)	
FUND BALANCE, BEGINNING OF YEAR			<u>8,315,143</u>	
FUND BALANCE, END OF YEAR			<u>\$ 7,992,741</u>	

CITY OF STERLING, ILLINOIS
ROCK RIVER TAX INCREMENT ALLOCATION FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND DEFICIT -
BUDGET AND ACTUAL
Year Ended April 30, 2010

	<u>Budget</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>with</u>
				<u>Final Budget</u>
REVENUES				
Taxes				
Property	\$ 381,000	\$ 446,658	\$ 446,658	\$ -
Intergovernmental				
Federal grants	150,000	46,909	33,118	(13,791)
Interest	8,500	175	175	-
Other	-	10	10	-
	<u>-</u>	<u>10</u>	<u>10</u>	<u>-</u>
Total revenues	<u>\$ 539,500</u>	<u>\$ 493,752</u>	<u>479,961</u>	<u>\$ (13,791)</u>
EXPENDITURES				
Community development				
Other professional service	\$ 154,700	\$ 57,433	43,642	\$ 13,791
Legal service	50,000	325,000	391,617	(66,617)
Environmental/USTs	5,000	46,000	48,413	(2,413)
Redevelopment agreements	50,000	50,000	50,000	-
Miscellaneous	9,790	5,957	5,816	141
Debt service				
Principal	120,000	120,000	120,000	-
Interest	149,340	31,042	24,309	6,733
	<u>149,340</u>	<u>31,042</u>	<u>24,309</u>	<u>6,733</u>
Total expenditures	<u>\$ 538,830</u>	<u>\$ 635,432</u>	<u>683,797</u>	<u>\$ (48,365)</u>
Deficiency of revenues over expenditures			<u>(203,836)</u>	
OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses			<u>(203,836)</u>	
FUND DEFICIT, BEGINNING OF YEAR			<u>(736,360)</u>	
FUND DEFICIT, END OF YEAR			<u>\$ (940,196)</u>	

CITY OF STERLING, ILLINOIS
CBD TAX INCREMENT ALLOCATION FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND DEFICIT -
BUDGET AND ACTUAL
Year Ended April 30, 2010

	<u>Budget</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>with</u>
				<u>Final Budget</u>
REVENUES				
Taxes				
Property	\$ 284,000	\$ 282,936	\$ 282,936	\$ -
Sales	136,100	117,334	113,688	(3,646)
Interest	15,800	16,699	15,642	(1,057)
Net change in fair value of investments	-	-	(4,060)	(4,060)
Total revenues	<u>\$ 435,900</u>	<u>\$ 416,969</u>	<u>408,206</u>	<u>\$ (8,763)</u>
EXPENDITURES				
Community development				
Miscellaneous	\$ 1,601	\$ 1,706	1,705	\$ 1
Debt service				
Principal	375,000	375,000	375,000	-
Interest	<u>67,725</u>	<u>67,725</u>	<u>67,725</u>	<u>-</u>
Total expenditures	<u>\$ 444,326</u>	<u>\$ 444,431</u>	<u>444,430</u>	<u>\$ 1</u>
Deficiency of revenues over expenditures			<u>(36,224)</u>	
OTHER FINANCING SOURCES				
Operating transfers in	<u>\$ 16,000</u>	<u>\$ 16,000</u>	<u>16,000</u>	<u>\$ -</u>
	<u>\$ 16,000</u>	<u>\$ 16,000</u>	<u>16,000</u>	<u>\$ -</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses			(20,224)	
FUND DEFICIT, BEGINNING OF YEAR			<u>(441,660)</u>	
FUND DEFICIT, END OF YEAR			<u>\$ (461,884)</u>	

CITY OF STERLING, ILLINOIS
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
April 30, 2010

Note 1. Basis of Accounting

Annual budgets are adopted for all governmental funds using the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

Note 2. Excess of Disbursements Over Appropriations

The following major funds had an excess of disbursements over appropriations:

	<u>Actual</u>	<u>Budget</u>
General Fund	\$9,874,978	\$9,774,648
Rock River Tax Increment Allocation Fund	683,797	635,432

SUPPLEMENTAL INFORMATION

CITY OF STERLING, ILLINOIS
NONMAJOR FUNDS
COMBINING BALANCE SHEET
April 30, 2010

	Special Revenue										Debt Service		Capital Project						
	Motor Fuel Tax Fund	Library Fund	Band Fund	Industrial Development Fund	Municipal Colliseum Fund	IMRF Fund	Social Security Fund	Civil Defense Fund	Stirling Civic Center Authority Fund	Foreign Fire Insurance Fund	Whitelande Area Housing Fund	Lincolnhway-Lynn Tax Increment Allocation Fund	NSP2 Grant Fund	Special Service Area Fund	Lynn Boulevard Project Fund	McFall Landfill Project Fund	NWSW Redevelopment Fund	Infrastructure Fund	Total
ASSETS																			
Cash	\$ -	\$ 359,982	\$ 4,768	\$ 49,973	\$ 48,433	\$ 18,586	\$ -	\$ -	\$ 14,359	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,344	\$ -	\$ -	\$ 541,488
Investments	230,588	578,805	-	283,222	-	777,242	-	22,532	-	-	-	-	-	-	-	-	118,334	-	2,010,723
Receivables (net, where applicable of allowances for uncollectibles)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes	-	428,099	58,418	-	84,911	58,418	202,937	10,699	-	-	-	-	-	-	80,683	-	-	-	924,165
Intergovernmental	34,201	9,738	1,103	-	1,678	-	463	391	-	-	-	-	8,138	-	-	36,467	-	-	92,179
Accounts	66,990	3,600	-	-	103	-	-	-	-	-	5,056	-	-	-	-	28,791	-	-	104,540
Notes	-	-	-	303,937	-	-	-	-	-	-	-	-	-	-	-	-	-	-	303,937
Interest	-	3,053	-	-	-	1,256	-	22	-	-	-	-	-	-	-	-	294	-	17,443
Due from other funds	108,290	-	98,856	-	-	2,297	94,645	-	-	-	-	-	-	-	91,196	-	404,787	-	1,202,571
TOTAL ASSETS	\$ 440,069	\$ 1,383,277	\$ 163,145	\$ 649,950	\$ 135,125	\$ 857,799	\$ 298,045	\$ 74,687	\$ 14,359	\$ -	\$ 5,056	\$ -	\$ 8,138	\$ 171,879	\$ 40,811	\$ 28,791	\$ 523,415	\$ 402,500	\$ 5,197,046
LIABILITIES																			
Accounts payable	\$ 28,158	\$ 4,503	\$ 1,237	\$ 2,297	\$ 4,508	\$ 20,663	\$ -	\$ 113	\$ -	\$ -	\$ -	\$ 12,311	\$ 57	\$ -	\$ -	\$ 314	\$ -	\$ 9,175	\$ 83,336
Accrued payroll	-	7,752	4,825	-	1,463	-	-	-	-	-	-	-	-	-	-	-	-	-	14,040
Deposits	-	-	-	10,642	400	-	-	-	-	-	-	-	-	-	-	-	-	-	11,042
Due to other funds	-	-	-	-	-	-	-	-	-	-	5,056	24,752	8,081	-	-	-	27,641	-	65,530
Deferred revenue	-	428,099	58,418	-	84,911	58,418	202,937	10,699	-	-	-	-	-	-	-	-	-	-	924,165
Total liabilities	28,158	440,354	64,480	12,939	91,282	79,081	202,937	10,812	-	-	5,056	37,063	8,138	80,683	314	27,641	9,175	-	1,098,113
FUND BALANCE (DEFICIT)																			
Reserved	411,911	942,923	98,665	637,011	43,843	778,718	95,108	63,875	14,359	-	-	-	-	-	91,196	40,497	1,150	514,240	402,500
Unreserved	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fund balance (deficit)	411,911	942,923	98,665	637,011	43,843	778,718	95,108	63,875	14,359	-	-	-	-	-	91,196	40,497	1,150	514,240	402,500
TOTAL LIABILITIES AND FUND BALANCE	\$ 440,069	\$ 1,383,277	\$ 163,145	\$ 649,950	\$ 135,125	\$ 857,799	\$ 298,045	\$ 74,687	\$ 14,359	\$ -	\$ 5,056	\$ -	\$ 8,138	\$ 171,879	\$ 40,811	\$ 28,791	\$ 523,415	\$ 402,500	\$ 5,197,046

CITY OF STERLING, ILLINOIS
NONMAJOR FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended April 30, 2010

	Special Revenue										Debt Service				Capital Project				Total
	Motor Fuel Tax Fund	Library Fund	Band Fund	Industrial Development Fund	Municipal Collection Fund	IMRF Fund	Social Security Fund	Civil Defense Fund	Sterling Civic Center Authority Fund	Foreign Fire Insurance Fund	Whiteridge Area Housing Fund	Lincolnway-Lynn Tax Incremental Allocation Fund	NSRF Grant Fund	Special Service Area Fund	Lynn Parkland Project Fund	McFall Landfill Project Fund	NWSW Redevelopment Fund	Infrastructure Fund	
REVENUES																			
Taxes	\$ -	\$ 393,972	\$ 59,025	\$ -	\$ 77,869	\$ 54,820	\$ 193,866	\$ 11,991	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 68,346	\$ 218,562	\$ -	\$ -	\$ -	\$ 1,084,551
Intergovernmental	397,913	106,447	7,608	-	11,873	5,000	3,280	2,772	-	-	-	-	8,138	-	-	-	-	-	545,631
Charges for services	-	14,170	2,618	119,321	22,859	-	-	-	-	-	-	-	-	-	-	-	-	-	158,638
Interest	468	20,885	418	13,978	190	34,747	529	1,198	2	125	1	-	-	360	249	-	10,237	-	83,387
Net change in fair value of investments	-	853	-	-	-	3,209	-	80	-	-	-	-	-	-	-	-	(2,000)	-	14,142
Donations	-	127,653	24,637	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	157,290
Other	581,376	7,590	41,346	756	-	20,000	40,000	-	-	18,440	27,500	-	-	2,025	-	19,191	-	-	738,222
Total revenues	979,757	671,570	135,852	134,055	112,791	117,776	243,775	16,041	2	18,565	27,501	-	8,138	70,731	218,811	19,191	8,237	-	2,782,793
EXPENDITURES																			
Current																			
General government	-	-	-	-	146,475	109,017	230,658	-	-	-	-	-	-	-	-	-	-	-	486,150
Public safety	-	-	-	-	-	-	-	7,577	-	50,450	-	-	-	-	-	-	-	-	58,027
Public works and transportation	268,652	-	-	-	-	-	-	-	-	-	-	-	-	-	838	19,191	-	-	288,681
Community development	-	-	-	113,623	-	-	-	-	-	-	22,339	37,063	8,138	-	-	-	119,422	-	300,585
Culture and recreation	-	550,277	125,353	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	675,630
Debt service																			
Principal	120,000	-	-	-	-	-	-	-	-	-	-	-	-	43,264	175,000	-	-	-	338,264
Interest	39,337	-	-	-	5,069	-	-	-	-	-	-	-	-	26,074	42,768	-	-	-	108,179
Capital outlay	706,787	30,088	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	741,944
Total expenditures	1,134,776	380,365	125,353	113,623	151,544	109,017	230,658	7,577	-	50,450	22,339	37,063	8,138	69,338	218,606	19,191	119,422	-	2,997,460
Excess (deficiency) of revenues over expenditures	(155,019)	91,205	10,499	20,432	(38,753)	8,759	13,117	8,464	2	(31,885)	5,162	(37,063)	-	1,393	205	-	(111,185)	-	(214,667)
OTHER FINANCING SOURCES																			
Sale of property	-	1,648	-	38,149	-	-	-	-	-	-	-	-	-	-	-	-	-	-	39,797
Operating transfers in	175,000	-	-	-	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	225,000
Total other financing sources	175,000	1,648	-	38,149	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	264,797
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FUND BALANCE, BEGINNING OF YEAR	19,981	92,853	10,499	58,581	11,247	8,759	13,117	8,464	2	(31,885)	5,162	(37,063)	-	1,393	205	-	(111,185)	-	50,130
	391,930	850,070	88,166	578,430	32,596	769,959	81,991	55,411	14,357	31,885	(5,162)	-	-	89,803	40,292	1,150	625,425	402,500	4,048,803
FUND BALANCE (DEFICIT), END OF YEAR	\$ 411,911	\$ 943,923	\$ 98,665	\$ 637,011	\$ 43,843	\$ 778,718	\$ 95,108	\$ 63,875	\$ 14,359	\$ -	\$ -	\$ (37,063)	\$ -	\$ 91,196	\$ 40,497	\$ 1,150	\$ 514,240	\$ 402,500	\$ 4,098,933

CITY OF STERLING, ILLINOIS
COMBINING STATEMENT OF PLAN NET ASSETS
PENSION TRUST FUNDS
April 30, 2010

	Pension Trust Funds		
	Policemen's Pension Fund	Firemen's Pension Fund	Totals
ASSETS			
Cash	\$ 4,334	\$ 80,441	\$ 84,775
Accrued interest receivable	24,715	26,026	50,741
Investments, at fair value	<u>10,568,211</u>	<u>10,019,441</u>	<u>20,587,652</u>
TOTAL ASSETS	<u>10,597,260</u>	<u>10,125,908</u>	<u>20,723,168</u>
LIABILITIES	<u>-</u>	<u>474</u>	<u>474</u>
NET PLAN ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 10,597,260</u>	<u>\$ 10,125,434</u>	<u>\$ 20,722,694</u>

CITY OF STERLING, ILLINOIS
COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS
PENSION TRUST FUNDS
Year Ended April 30, 2010

	Pension Trust Funds		
	Policemen's Pension Fund	Firemen's Pension Fund	Total
ADDITIONS			
Contributions			
Employer	\$ 324,050	\$ 255,652	\$ 579,702
Plan members	160,195	125,115	285,310
Total contributions	<u>484,245</u>	<u>380,767</u>	<u>865,012</u>
Investment income			
Interest earned	276,449	250,621	527,070
Net change in fair value	1,326,826	1,049,394	2,376,220
Total investment income	<u>1,603,275</u>	<u>1,300,015</u>	<u>2,903,290</u>
Other revenue	<u>3,111</u>	<u>550</u>	<u>3,661</u>
Total additions	<u>2,090,631</u>	<u>1,681,332</u>	<u>3,771,963</u>
DEDUCTIONS			
Administrative	65,076	79,830	144,906
Benefits	689,176	682,712	1,371,888
Total deductions	<u>754,252</u>	<u>762,542</u>	<u>1,516,794</u>
NET INCREASE	<u>1,336,379</u>	<u>918,790</u>	<u>2,255,169</u>
NET ASSETS HELD IN TRUST FOR PENSION			
BENEFITS, BEGINNING OF YEAR	<u>9,260,881</u>	<u>9,206,644</u>	<u>18,467,525</u>
NET ASSETS HELD IN TRUST FOR			
PENSION BENEFITS, END OF YEAR	<u>\$ 10,597,260</u>	<u>\$ 10,125,434</u>	<u>\$ 20,722,694</u>

OTHER INFORMATION



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH STATE OF ILLINOIS PUBLIC ACT 85-1142**

Illinois Department of Revenue
Springfield, Illinois

We have audited the basic financial statements of the City of Sterling, Illinois for the year ended April 30, 2010, and have issued our report thereon dated September 28, 2010. The basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on the eligibility for costs incurred incidental to the implementation of the redevelopment plan and redevelopment projects associated with the Downtown Redevelopment TIF district pursuant to Subsection (q) of Section 11-74.4-3 of the Illinois Tax Increment Redevelopment Allocation Act.

Our audit was made in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

The City of Sterling, Illinois' management is responsible for the government's compliance with laws and regulations. In connection with our audit referred to above, we selected and tested transactions and records to determine the government's compliance with State of Illinois Public Act 85-1142, "An Act in Relation to Tax Increment Financing".

The results of our test indicate that for the items tested, the City of Sterling, Illinois complied with Subsection (q) of Section 11-74.4-3 of Public Act 85-1142.

Lindgren, Callihan, Van Osdol & Co., Ltd.

Rockford, Illinois
September 28, 2010